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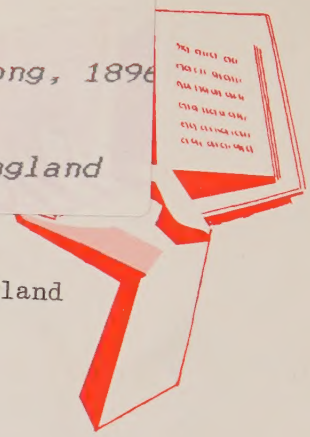

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BRANCH BANKING IN ENGLAND

BRANCH BANKING
IN
ENGLAND

BY
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WITH A FOREWORD BY EDMUND PLATT
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OF THE
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Foreword

ENGLAND and the United States are the two outstanding countries in the world in the development of deposit banking and in the use of checks, but the banking systems of the two countries nevertheless differ greatly and present some very great contrasts. Professor Harr's admirable and concise monograph on Branch Banking in England tells the story of English banking development, particularly the story of the series of consolidations that began after 1862, when banking shares were first given limited liability, and continued until they resulted in the creation of the Big Five after the Great War.

In his preface Professor Harr says: "This is intended as a practical monograph rather than an academic study, and as such it is addressed to the American Banker." The story of the consolidations, and the story of the services rendered to business and agriculture even in the small towns by the English branch banks, as well as Professor Harr's conclusions, should be of equal interest to American business men. Corporate banking in the modern sense began in America long before it was permitted in England—if we except the Bank of England. The joint-stock banks of England were partnerships, or as we should call them

private banks, until 1862, by which time every conceivable experiment in corporate banking had been tried in the United States. In spite of this English banking has made far greater progress than American banking and every section of England is adequately and safely served while we are still struggling with the problems created by the efforts of small unit banks to serve their communities by doing more business than their capital and resources warrant—often through excessive borrowing from the Reserve Banks or from correspondent banks, and sometimes through "excess" or illegal loans. Meanwhile many of our small banks are being slowly and painfully eliminated by failures and liquidations. Except as to non-member state banks in a few states the laws operate to prevent consolidations unless the banks brought together are in the same municipal limits.

I doubt whether any business man can read Professor Harr's interesting narrative without asking whether our laws which prevent consolidations and prohibit branches serve any good purpose, whether many of the failures still of almost daily occurrence in the great agricultural states could not be averted by consolidations, whether we should not at least permit and even encourage such a series of consolidations as those that took place in England between 1862 and 1895 or 1900.

EDMUND PLATT

Washington, July 19, 1928

DEDICATED

to

Dr. Emory R. Johnson

Dean of the Wharton School

of Finance and Commerce

in the

University of Pennsylvania

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Preface

BRANCH banking in England is now over one hundred years old. As a distinctive part of the English banking system, it has attracted the notice of many publicists and financial writers. There has been, however, no treatment of this institution from an American point of view. The writer believes that an investigation of integral parts of foreign banking systems is pertinent to the American banker, and that it will be of interest and of value to him. This is intended as a practical monograph rather than an academic study, and as such it is addressed to the American banker.

In the preparation of this monograph the writer desires to express his gratitude to the Hon. A. B. Houghton, Mr. Edward T. Stotesbury and Mr. Thomas S. Gates of J. P. Morgan & Company and Drexel & Company; Mr. George Rand, President of the Marine Trust Company of Buffalo; Congressman Clarence MacGregor; Messrs. Whigham and Herbert of Morgan, Grenfell & Company; and Mr. Arthur Roberts of the Continental National Bank and Trust Company of Chicago, all of whose letters of introduction were most helpful.

It would require much space to name all those who

were of assistance in this work, and it therefore will not be attempted. However, many thanks are due to the Rt. Hon. Reginald McKenna, Chairman of the Midland Bank; Mr. Frank Goodenough, Chairman of Barclays Bank; Sir Felix Schuster of the National Provincial Bank; Mr. Arthur Jackson of the Midland Bank; Messrs. J. Hariss and H. D. Hodge of the Westminster Bank, and to many others for the information that they made it possible for the writer to obtain. Too much cannot be said of the courtesy and helpfulness of the English bankers in assisting and making possible the gathering of information.

The writer is also deeply grateful for the helpful criticisms and suggestions of Dean Emory R. Johnson, and Professors E. S. Mead, C. K. Knight, W. C. Harris and E. L. McKenna, all of the Wharton School of the University of Pennsylvania.

In the writer's opinion a proper presentation of the several aspects of branch banking in England requires a brief historical account of the development of some phases of the English banking systems, and the first three chapters accordingly are historical in nature.

The following volumes, among others, were found helpful by the writer in outlining historical matters pertaining to this subject:

Andreades, A. A History of the Bank of England. London: P. S. King & Son, Ltd. (Second Edition).

Bagehot, Walter. Lombard Street. New York: E. P. Dutton & Co., 1921.

Bagshaw, Hannaford and Peard. Practical Banking. London: Sir Isaac Pitman & Son, Ltd., 1924. (Revised Edition).

Clare, George. Money Market Primer. London: Effingham Wilson, 1921. (Second Edition).

Davis, J. F. Bank Organization. London: Sir Isaac Pitman & Sons.

Gilbart, J. W. History, Principles and Practice of Banking. London: G. Bell & Sons, 1907. (Sykes Edition).

Jevons, W. S. Money and the Mechanism of Exchange. New York: D. Appleton & Company, 1916.

Lawson, W. J. History of Banking. London: Richard Bentley, 1850.

Leaf, Walter. Banking. London: Williams & Norgate, Ltd., 1926.

MacLeod, H. D. Theory and Practice of Banking. London: Longman, Brown, Green and Longmans, 1855.

Matthews, P. W. The Bankers Clearing House. London: Sir Isaac Pitman & Sons, 1921.

Minty, L. LeMarchant. English Banking Methods. London: Sir Isaac Pitman & Sons, Ltd., 1926. (Third Edition).

Moxon, T. B. English Practical Banking. London: J. Heywood, Ltd., 1908. (Fourteenth Edition).

Phillips, H. W. Modern Foreign Exchange and Foreign Banking. London: MacDonald & Evans, 1926.

Rae, George. The Country Banker. New York: Charles Scribner's Sons, 1886. (American Edition).

Spalding, W. F. The London Money Market. London: Sir Isaac Pitman & Sons. (Third Edition).

Sykes, Ernest. Banking and Currency. London: Butterworth & Co., 1905.

Sykes, Joseph. The Amalgamation Movement in English Banking, 1825–1924. London: P. S. King & Son, Ltd., 1926.

Sykes, Joseph. An Outline of English Banking Administration. London: Sir Isaac Pitman & Sons, Ltd., 1925.

Thomas, S. E. Banker and Customer. London: Sir Isaac Pitman & Sons, Ltd., 1926.

Weston, U. J. Banking and Currency. London: University Tutorial Press, Ltd., 1922.

Withers, Hartley. Meaning of Money. New York: E. P. Dutton & Co., 1920.

Withers, Hartley. War and Lombard Street. London: John Murray. (New Edition).

Introduction

DURING the course of the past five years the subject of branch banking has become of more than academic interest in the United States. The discussion leading up to the passage of the Pepper-McFadden bill; the efforts of large urban banks to extend their activities beyond the district served by the main office; the rapid growth in size of individual banks through amalgamations and consolidations; to a large extent have been responsible for the increasing interest in the subject.

Looking beyond the numerous amalgamations and consolidations which have taken place between banks in the United States, one finds that a like tendency towards large-scale enterprises has been operating in practically all industries during the past decade or so. This is true not only in the United States but in all other countries as well. For example, as will be shown later, England has witnessed during the past twenty years an amazing number of bank amalgamations. Likewise Germany has been the scene of numerous consolidations; while in the United States this tendency is conspicuously illustrated in the mergers and consolidations which have taken place in the steel, oil, automobile, tobacco, meat-packing,

and other industries as well as in the banking business. As a consequence, the profound distrust of highly concentrated power, whether political, social, or economic in form, which in the past was present in the minds of the citizens of the United States, has tended to abate somewhat, and it is no longer felt that large size in itself is productive of pernicious forces.

The business of banking in this country to a far greater extent than most other industries, has been subject to restrictive and inelastic legislation which has seriously retarded its normal evolutionary growth predicated upon economic development of resources and industries. While no one would be foolhardy enough to claim perfection for the present banking system[1] of the United States, yet there are many who view with unconcealed horror and hostility any attempt to make material changes in it. It is to be regretted that in the United States the subject of branch banking has not always been thoughtfully pondered. Frequently its antagonists have developed a great deal of patriotic fervor about the question and at the same time have refused to study the facts and economic principles underlying it. That all is not well with the banking system in the United States is quite evident from the vast crop of bank failures gathered during the past three years, which are revealed in the following table.

[1]It would be more accurate to use the term in its plural, as our States all possess independent banking systems in addition to the National Bank system.

BANK SUSPENSIONS IN THE UNITED STATES[1]

YEAR	NUMBER	DEPOSITS
1924	777	$213,444,000
1925	612	172,900,000
1926	956	272,488,000
1927	662	193,891,000
	3007	$852,723,000

If, as claimed by its proponents, the introduction of widespread branch banking into the United States will reduce the alarming tendencies disclosed in the table, and at the same time will not bring in more harmful practices, it would be well worth while trying.[2] At least the subject deserves a great deal of thoughtful study and deliberation on the part of the bankers and business men of this country.

[1]Federal Reserve Bulletins, vol. xii, No. 4 (April, 1926), p. 247; and vol. xiv, No. 6 (June, 1928), p. 392.

[2]Incidentally intrastate branch banking is being practised at the present in a number of states. The reader is referred to an article appearing in the June, 1926, Federal Reserve Bulletin which gives information concerning the status of branch banking in the United States.

CHAPTER I

Development of English Banking

BANKING in England in one form or another can be traced back to the Norman Conquest, although in the modern significance its foundations were laid in the latter part of the seventeenth century. Prior to 1690, money lending was practised by a group of foreigners, most of them of Jewish extraction, who supplied the sovereign and the nobility with the funds necessary to pay the mercenaries who were engaged in the many petty quarrels and wars among those comprising the nobility.

The term "bank" is usually said to be derived from the Italian word *banco*, meaning a bench, as the early bankers and goldsmiths in Lombardy transacted a large part of their business on benches. After the expulsion of the Jews from England in 1290, Lombard merchants became the money lenders to the king and others in want of credit, and this continued throughout the fourteenth century. The Lombards in turn

were succeeded by goldsmiths who, in addition to their technical duties, received valuable articles for safe-keeping, giving in return a written receipt which was the precursor of the bank note. The goldsmiths acted as bullion dealers, often making a profit in debasing the coins, and it is not surprising therefore that their reputation was not of the best. It was not until 1640 that merchants and others began to deposit currency and bullion with the goldsmiths for safe-keeping. Prior to that date those possessing valuables and desiring a secure storage place would leave them under crown protection at the Royal Mint in the Tower of London.

In 1640 Parliament refused to grant Charles I sufficient sums to defray the expenses necessary for maintaining his armies and he thereupon seized some £130,000 in bullion which had been deposited in the Tower by merchants, the equivalent of which the merchants ultimately received from the crown. Bearing in mind this unhappy experience, the merchants, in looking around for other places than the Tower in which to keep their valuables, were attracted by the superior facilities offered by the goldsmiths and it was not long before they began to deposit their valuables with the goldsmiths. The receipts for the deposited valuables soon became negotiable and were often used as security for temporary loans.

Naturally, the goldsmiths discovered that the greater amount of the funds deposited with them for

safe-keeping would not be required and drawn upon at any one time, and therefore it was possible and profitable to lend out a portion of these funds at a high rate of interest. As the potentialities of this angle of their business became more apparent, interest on deposits was introduced as a bait to encourage additional deposits.

Those whose prestige and wealth justified it also made loans by issuing to the borrowers a promise to pay upon demand a fixed sum of money, and these notes passed freely among those who were cognizant of the standing of the maker, and able to recognize the genuineness of the signature. This might be said to be the inauguration in England of banking as such.

Costly war, and the hasty action in 1672 of Charles II seizing large sums from the goldsmiths, thereby causing widespread ruin and distress to the customers of the goldsmiths, so diminished the credit of the government that it was necessary to devise some new scheme to raise funds to continue the war with France which William III was now fighting. A number of schemes were suggested but it was not until 1694 that a plan advocated three years previously by William Paterson, a Scotsman, was adopted. This plan was based upon the joint-stock principle, the proposed bank having the right to issue notes, which had been the basis for the successful banks already existent in Amsterdam, Venice and Genoa. Thus the Bank of England was incorporated by Acts 5 and 6 William

and Mary, and the foundation was laid for one of the greatest financial systems of all time.

The charter of the Bank of England provided inter alia for the subscription by the public in the amount of £1,200,000, which sum was to be loaned to the government for carrying on the war; the issue of notes not to exceed the capital of £1,200,000; and it also gave the Bank the power to deal in bills of exchange and bullion, and to make advances on merchandise.

The necessary capital was quickly subscribed and the charter granted for a period of eleven years. Needless to say, much opposition arose against the Bank, chiefly among the money lenders, who saw in the new bank a competitive group which might force them to reduce the usurious rates which they had been in the habit of charging. Nevertheless, the Bank commenced business on January 1, 1695, in Grocers' Hall, in the Poultry.

The Bank had not been in operation for three years before it was compelled to suspend cash payment; and the Bank that today seems so impregnable, went through many crises, political, personal, and otherwise, before it reached a position of stability and great influence.[1]

Periodically when and as the charter of the Bank

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[1]It is interesting to note that ever since the Gordon riots in 1780, a company of Grenadiers or Coldstream Guards has remained in the bank during each night.

of England was renewed Acts of Parliament were also passed making more secure the right of monopoly to joint-stock banking in London and adjacent territory. For example, the Act of 1708 distinctly forbade any partnership or corporation consisting of six or more persons, other than the Bank of England, from issuing notes. This was at a time when deposit banking did not exist to any extent and when the profitable operation of the bank lay in the note-issue function. This restriction was in operation for over one hundred years and naturally increased the standing and reputation of the Bank of England.

The strain of financing the Napoleonic Wars was responsible for a depreciated exchange and depreciated bank notes. The drain on the Bank of England was strong enough to bring forth in 1797 an Order in Council permitting the Bank to suspend payments in cash. The restriction on cash payments was continued until 1819, with the consequent effect of placing a premium on gold, and causing unfavorable depreciation for England in the foreign exchanges. Americans can read with interest about the period of violent and reckless speculation which followed the declaration of peace with Napoleon. The natural result of this orgy of speculation was the cumulative crop of bank failures during the period of reaction which always follows the illusory paths of speculation. A writer expresses in caustic terms the evil effects resulting from the unhappy combination of a

business reaction and small amateur banks. He writes as follows:[1]

> The effects of this monopoly, however, were most disastrous. Bank of England notes had no circulation beyond London, and it would not establish any branches in the country. No other powerful and wealthy banks could be formed, the consequence was, that when enterprise awoke in the country, in the last quarter of the last century, and there was a great demand for an increased Currency, all sorts of petty tradesmen in all directions, grocers, linen-drapers, cheesemongers, tailors, etc., started up and turned "bankers," i.e., issuers of promissory notes, so much so, that, in 1793, there were about 400 of these country "bankers."

One prominent English banker said to the writer:[2]

> "At the present time, you in the United States appear to be going through somewhat of the same banking experience which we went through during the latter part of the eighteenth and early part of the nineteenth centuries."

It was not until 1822 that a zealous and discerning student of banking published a pamphlet in which he pointed out the fact that the charter of the Bank of England did not prohibit the formation of joint-stock companies whose purpose would be to engage in the

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[1]Macleod, H. D., Theory and Practice of Banking, vol. ii, p. 380. London: Longman, Brown, Green and Longmans, 1855.

[2]This remark was uttered in November, 1926.

banking business other than the issue of bank notes. As soon as this fact became generally known, companies were formed and later, against the opposition of the Bank of England, liberalizing acts were passed which made it easier for the formation of joint-stock banks. The Act of 1826, for example, permitted the establishment of joint-stock banks with power to issue notes on the condition that they would operate outside of a radius of sixty-five miles from London; the Bank of England possessing the exclusive right to issue notes in the London area.

The Act of 1833, while increasing the powers of the Bank of England, really laid the groundwork for the development of joint-stock banking. This act, among other things, provided

> . . . that any body politic or corporate, or society, or company, or partnership, although consisting of more than six persons, may carry on the trade or business of banking in London, or within sixty-five miles thereof, provided that such body politic or corporate, or society, or company, or partnership, do not borrow, owe or take up in England, any sum or sums of money on their bills or notes payable on demand, or at any less time than six months from the borrowing thereof, during the continuance of the privileges granted by this Act to the said Governor and Company of the Bank of England.

The Act of 1833 did not, however, solve the banking and currency difficulties of England, and the

many failures among banking and commercial houses, particularly in 1836 and 1837, led to considerable criticism of the method of issuance of notes by the Bank of England. As a result, there appeared two theories concerning the control of bank notes, the one—the currency theory—maintaining that notes issued by banks should be secured and based upon gold, which would be the standard, the notes simply being a convenient representative of gold. The exponents of the other theory, often referred to as the banking theory, maintained that the issuance of notes should be left entirely in the hands of the bankers who would issue them only upon the legitimate demands and needs of business and trade, and who would ipso facto maintain a gold reserve sufficient to redeem the notes as presented for redemption. In other words, under the banking theory the notes would possess an elasticity impossible under the currency theory.

The banking situation became so serious that in 1839 a committee of the House of Commons was appointed to investigate the condition of the Bank of England. This committee rendered a report in which serious criticism was leveled at the principles upon which the Bank was working. However, as the charter of the Bank did not expire until 1844, nothing was done to remedy the existing situation until that date.

The Bank Charter Act of 1844, often referred to as the Peel Act, because it was written by Sir Robert

Peel, is still the note-regulating act in England. Naturally the primary purpose of the bank act was to provide ways and means for obviating the constantly recurring currency crises. As this act is the most important banking legislation passed in England in the last one hundred and fifty years, and is still the regulating act, the substance of the main provisions are set forth.

1. Within the Bank of England, a distinct and complete separation of the issue department from the banking department was to be made as of August 31, 1844, and securities to the amount of £14,000,000 were to be transferred to the issue department and notes to the same amount were transferred to the banking department. Any notes issued in excess of the £14,000,000 were to be secured by a one hundred per cent gold (or silver) reserve. Silver reserve was not to consist of more than one-fourth the gold reserve. As a matter of practice, however, the bank uses only gold as a reserve. It can be seen that the exponents of the so-called currency theory of note issue were successful in influencing the legislation along the lines of their recommendations.

2. The Act stated that if any bank possessing the power of note issue on May 6, 1844, should relinquish such power, the issue department of the Bank of England could issue above the £14,000,000 limit stated previously in the Act, without metallic reserve, additional notes to the extent of two-thirds of the

issue relinquished. No bank other than the Bank of England could acquire the right to issue notes in the future. In this connection it was not until 1921 that the Bank of England became the sole note-issuing bank in England. In that year, the remaining bank of issue, Messrs. Fox, Fowler and Co., was absorbed by Lloyds Bank Ltd., thereby losing the note-issue power which it formerly possessed. The fiduciary issue of £14,000,000 fixed by the Act of 1844 has therefore been increased by the Bank of England taking the rights possessed by other banks, and at the present time amounts to £19,750,000.[1] The Act also states that the Bank of England must issue on a prescribed form a statement indicating the position of both its issue and banking departments.

The Acts of 1833 and 1844 stimulated the deposit activities of the English banks to the greatest extent, because it was impossible to increase the notes issued, which had heretofore been the main source of revenue to the bankers, and deposit banking in England really dates from the passage of these Acts.

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[1] In 1844 there were 207 private banks and 72 joint-stock banks authorized to issue their own notes in England. As previously stated, the last of these issues lapsed in 1921, representing a total of £8,631,647. In pursuance of the Act of 1844 two-thirds, that is £5,754,431, of the lapsed amount may be added by Order in Council to the Bank of England's fiduciary issue of £14,000,000 as defined by that Act. By various Orders, as shown above, £5,750,000 of the two-thirds of the lapsed issues has been added to the Bank's issue, leaving a balance of £4,431.

On the outbreak of war with Germany in 1914, the Government issued a supplementary paper currency of £1 and 10*s*. notes. Thomson, W., Dictionary of Banking, p. 64. London: Sir Isaac Pitman & Sons, Ltd., 1926, (6th Edition).

However, England's banking and monetary troubles were not over by any means, and severe financial crises occurred in 1847 and in 1857, during both of which the Bank of England was forced to appeal to Parliament with the result that the Bank Act of 1844 in so far as it concerned note issue was suspended for the period of the emergency.

English banking was considerably handicapped in its development by the fact that the principle of limited liability was not recognized in so far as banking corporations were concerned, although an Act of 1855 has applied the principle of limited liability to trading companies. It was inevitable that bank shares did not present an attractive appearance to the investor because of the large numbers of bank failures arising out of the periodic financial crises. It was seen that banking development was not keeping pace with industry, and for the first time, in 1858, an act was passed in which the principle of limited liability was applied to joint-stock banks. This principle was later amplified in the Companies Acts of 1879 and 1908.

The Bank of England was again compelled to resort to the suspension of the Bank Act during the severe crisis of 1866, when on that dismal Friday of May 11, the famous discount house of Overend, Gurney and Co. failed with a crash which affected all England. Other crises occurred in later years, particularly in 1878 when the City of Glasgow Bank failed, the

Baring crisis of 1890, the American crisis of 1907, and the tense crisis of 1914 when the World War broke out and the Bank again appealed to Parliament for authority to suspend the reserve requirements against note issues, although it did not avail itself of the suspension.[1] Probably this was primarily due to the Treasury issuing currency notes, which was indeed a new departure for the British Government.

Incidentally there has recently appeared considerable discussion concerning the inelasticity of the note issue of the Bank of England. Mr. Reginald McKenna in the January 1927 issue of the publication of the Midland Bank Limited states in discussing the work of the Bank of England:

> It is here that the rigidity of the Bank of England system comes into view. In the United States credit can be readily expanded to meet trade requirements more or less regardless of the movement of gold, while with us such movements are the guiding factor. The explanation of the difference is to be found in the far greater elasticity of the Federal Reserve system as compared with our own central bank. The American system has been framed to suit modern conditions, and in fixing reserve requirements the development of deposit banking has been duly recognized. On the other hand, the Bank of England continues to operate under the Act of

[1] Withers, Hartley, War and Lombard Street, p. 33. London: John Murray, 1918. (New Edition).

1844, and as a consequence, although it holds a total of £151 millions of gold, its reserve against deposit liabilities is only £34 millions. This reserve, susceptible as it is to a drain occasioned by foreign demands for gold, is insufficient to permit open market operations with a view to increasing the volume of credit on anything more than quite a small scale. Its diminutive size does not allow the same freedom of policy as that enjoyed by the Federal Reserve Banks. If our central bank were to be re-established on the same reserve basis as either the Federal Reserve Banks or the recently reconstructed Reichsbank, or indeed in accordance with any modern system, the Bank of England would have a reserve standing at a far higher figure than it does today and could work with much greater freedom of policy and with manifest advantages to our trade. The subject is too large to permit of my entering into detail on an occasion like this, but I am convinced that it merits the most disinterested and painstaking investigation. An exhaustive inquiry into the principles on which a central bank should be founded and should conduct its operations would be of immense service to the public. The present system may have suited conditions in 1844, when deposit banking was in its infancy. It might conceivably suit conditions today, but if so only as the result of accident. It has survived for eighty years by virtue of its own suspension in times of crisis, the phenomenal supersession of the use of currency by that of cheques, and fortuitous discoveries of gold.

> The vital need for the future is to ensure that the maintenance of prosperity, with a growing population and ever-improving standard of living, both requiring an expansion in the volume of trade, shall not be hampered by false restrictions on the quantity of money. We need careful and expert consideration of the theoretical basis and practical technique of our credit and currency system, including the position of the Bank of England as the central institution and custodian of our monetary resources. No time is too early for this, but the present is peculiarly opportune by reason of the necessary revision of the Bank Charter involved in the projected amalgamation of the note issues.

The whole question of note issue will probably come to a head if and when the British Government recalls the Treasury Notes, thereby placing the entire burden of note issue upon the Bank of England.[1]

Nevertheless, the "Old Lady of Threadneedle Street," as the Bank of England is often termed by those who revere it, holds a peculiar place in the affections of the people of England. Governed as it has been by a board of directors composed of merchants and business men, it has built up a reputation which has given it a commanding influence in finan-

[1] An Act, "The Currency and Bank Notes Act, 1928" was passed by the House of Commons and is now before the House of Lords (June, 1928). This act provides, inter alia, that at some later date the liability for and the control of Treasury Notes now outstanding shall be transferred from the Treasury Department to the Bank of England, together with the assets held by the Treasury Department against such notes.

cial England. It acts as the fiscal agent for the British Government. It is the bankers' bank of England and as such holds the reserves for the various banking institutions in England. The Bank of England fixes the "Bank Rate" which in turn is the basis for all the money rates in the London market. The Dictionary of Banking states:

> The Bank Rate is the advertised minimum rate at which the Bank of England will discount approved bills of exchange (of not more than three months' currency) or grant short loans, but the rate which is actually charged to customers who keep their accounts with the Bank is the current market rate, which is, as a rule, a little lower than the Bank Rate. The Bank Rate is fixed by the Directors at their weekly meeting each Thursday, though alterations are sometimes made, when necessary, upon other days. The Rate is regulated according to the supply of money, on the one hand, and the demand for it, on the other. When the Bank Reserve gets too low, the Directors raise the Rate, but when the Directors find that they are in a position to increase their loans or discounts, the Rate is lowered. The reserve in the banking department is the most important cause of the rise or fall of the Bank Rate. A small reserve indicates a high Rate, and a large reserve a low Rate. The proportion of notes and gold to the deposits is on an average about forty-three per cent. A rise in the Bank Rate tends to attract gold to this country (England); a fall in the Rate encourages gold to go

abroad. The Bank Rate is, therefore, of the utmost importance in protecting the national reserve of gold. The rates, whether for loans, discounts, or deposits, of all the other banks in the country are regulated, more or less, according to the Bank Rate.[1]

The publishing of the Bank Rate each Thursday is awaited with great interest not only by financial England, but by the rest of the financial world.

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[1]Thomson, W., Dictionary of Banking, p. 68, London, Sir Isaac Pitman & Sons, Ltd., 1926, (6th Edition).

CHAPTER II

The London Money Market

THE term "money market" suggests a building in which those possessing a plethora of money meet prospective borrowers. As a matter of fact, that term is to some extent a misnomer and tends to mislead because in London there is not a centrally located building housing the money lenders and the money borrowers, and as a matter of fact it is not actual money but rather credit which is dealt in. The London money market consists of a great many varied parts located within the City itself, that is to say the old City of London. While the influence of this market is world-wide because of the vast number of international transactions passing through it each day, if one were to fix the geographical location of the money market, its center would be placed very close to the "Old Lady of Threadneedle Street," and from this point it would extend in all directions cover-

ing the ground occupied by the many financial institutions, consisting of joint-stock banks, discount houses, bill brokers, insurance companies, stock-brokers, and others engaged in similar enterprises.

Thus while the London money market covers a large expanse of territory, nevertheless it is a place where money used in the broad sense and including credit is dealt in in a fashion somewhat similar to market dealings in commodities. There are dealings in futures as well as in spot, and the price is fixed, generally speaking, by the relation existing between the supply and demand of money; and those who compose the working elements in the money market are endeavoring to make a profit out of the transactions thus taking place.

It was stated that geographically the Bank of England was the heart of the London money market. It is also the physical center of this market, because it holds the reserves for the other financial institutions: it is the court of last appeal when the other banking institutions need additional credit to safeguard their transactions; and it will be recalled that the Bank possesses the exclusive right to issue bank notes, which in itself gives it a commanding position, particularly in times of stress.

The London Clearing Association has a membership consisting of the ten banking institutions which are as follows:

Barclays Bank, Limited
Lloyds Bank, Limited
Midland Bank, Limited
National Provincial Bank, Limited
Westminster Bank, Limited
Bank of Liverpool and Martins, Limited
Glyn, Mills & Co.
Williams Deacon's Bank, Limited
Coutts & Co.[1]
Bank of England

Since the famous Versailles Peace Conference of 1919, the first five banks mentioned in the preceding list are referred to as the "Big Five." In truth they are the "Big Five" of English banking because among them they do most of the commercial banking of England; and Barclays, Lloyds, Midland, National Provincial, and Westminster are characterized by the far-flung extent of their influence, the large number of branches, and the tremendous resources possessed. The activities of this group will be treated in some length in a subsequent chapter. However, in discussing the London money market, it should be stated that their head offices are in all cases located in London. While such important banks as Williams Deacon's Bank, Ltd. and the Bank of Liverpool and Martins, Ltd. have offices in London, the head office of the first is located in Manchester while that of the

[1]Since 1920 affiliated with the National Provincial Bank, Limited, Coutts & Co. still retains its old name, offices, and membership in the Clearing Association.

second is in Liverpool. These two banks are the most important examples of joint-stock banks specializing in financing particular industries, although they do not by any means entirely limit their operations to particular industries.

The private banks which were at one time of great importance form another group in the London money market. With the absorption of most of the important private banks by the joint-stock banks, the former have decreased in numbers and influence until of the more important ones there really remain only Glyn, Mills & Co. and Charles Hoare & Co., although some of the foreign private bankers are doing quite a lucrative business in the London market.

In addition to the banks already catalogued are the banks established for the financing of foreign trade, some of them affiliated with, or subsidiaries of members of the Big Five. The British Overseas Bank, Ltd. is an example of an independent bank established for financing foreign trade, while Barclays Bank Dominion, Colonial and Overseas is a subsidiary of Barclays Bank, Ltd. Another important respresentative of this group is the Bank of London and South America which is affiliated with Lloyds Bank, Ltd.

Another influential group, members of the London market, are the dominion and colonial banks. They act as fiscal agents for their respective dominions,—Canada, Australia, New Zealand, South Africa. In

some cases, i.e., the Bank of Australia and the Bank of New Zealand, the head offices are located in London, though most of their operations are conducted overseas.

Still other financial institutions in the London money market are the Eastern banks, such as the chartered banks of India, Australia, and China, the Hong-Kong and Shanghai Banking Corporation, and the National Bank of India, Ltd., while the Scottish and Irish banks do considerable business in London, and in some cases are directly affiliated with members of the Big Five. An example in point is the British Linen Bank affiliated with Barclays.

The accepting houses are very often referred to as "merchant bankers," and this title is most descriptive of the part they play in financing industry and trade. In this group one encounters names which for generations have signified financial strength. Baring Brothers, founded in 1770, the Rothschilds, Schroders, Goschens & Cunliffe, and the Hambros Bank are all representative merchant bankers. It is the accepting houses which are the experts specializing in financing foreign trade by allowing their name to be used as the drawee on bills of exchange, thus substituting a well-known name of a banker for a less well-known name of an importer. In addition, the merchant bankers very often act as the fiscal agent and financial adviser for foreign nations, municipalities, etc., and as such float loans in the London market, thereby

making London a more prominent figure in international finance. They do not belong to the British Bankers' Association, preferring to maintain an organization of their own called the Accepting Houses' Committee.

For many years the bill of exchange has been the most important instrument used in the London money market and the English bankers regard trade and bank acceptances as more desirable than promissory notes. For this reason accepting houses and bill brokers render a great service to English trade.

The discount houses, often called the bill brokers, as their title implies, extend credit through discounting bills. The funds utilized for that purpose are received from the capital invested in the business and from deposits made by the public, for the use of which funds the discount houses pay a rate of interest slightly higher than the rate paid by the joint-stock banks. However, discount houses receive most of the funds from the proceeds of loans made to them by the joint-stock banks at a comparatively cheap rate and upon somewhat of a partnership basis. The discount house or bill broker really acts as the credit specialist for the banks, buying up good paper at a certain rate and then brokering it to the banks at a lower rate. The principal discount houses in the market are the Union Discount of London, Ltd., the National Discount Company, Ltd., and Alexanders Discount Company, Ltd.

Finally[1] the many foreign banks represented in London play an important part in the London market. Any doubt as to the international financial importance of the London market is dispelled by a walk down Lombard Street or Cornhill or Grace Church Street or Threadneedle Street or Throgmorton Street or Bishops Gate or Old Broad Street. The number of American banks which are opening London offices is indeed surprising to one who was familiar with the London of a decade ago. Prior to the World War the bulk of the foreign exchange business on the London market was done through German banks with offices in London, while the part played by American banks was negligible. Some criticism has been directed at the "open door" policy now existing in England regarding the establishment of banks, yet undoubtedly the ease with which foreign institutions can open up an office in London has helped to regain for London at least in part the financial leadership of a large part of the world.

Thus far the principal sources of credit and money have been considered, and now the demand factors will be mentioned. The demand for short-time credit arises from several quarters, of which the principal ones are the bill brokers and stockbrokers, who are operating on a comparatively small capital and must borrow from the bankers.

[1]The work of the stock exchange, the insurance companies, etc., will not be discussed. However, they all help to make up the London money market.

It might be of interest to show the methods through which advances are made by the banks to the bill brokers. Early each morning the managers of the city offices of the banks will review the financial position of the bank and will also forecast the requirements for the day. The bank manager will also have a fair idea concerning the requirements for the next week or so. The book containing the information which the managers study is known as the "Finance Book" and it generally contains on one side the following items:

The overnight balance at the Bank of England.

Particulars and totals of funds expected to come in that day.

Total of the proceeds of the bills and cheques which are being collected that morning.

Total of bills discounted maturing that day.

Particulars and total of Money Market money which matures that day.

Total of special deposits advised from branches, or elsewhere.

On the other side are:

The amount which the manager wishes to have to the credit of his bank at the Bank of England that evening.

The total of large deposits payable by the bank on that day.

The total, from the bill diary and from a summary of the advices, of bills payable at or by the bank.

Details and total of special remittances of large sums to branches.

Estimated total of dividends payable by the bank on that day.

Total of big payments generally, to be made for self and branches.

Contingencies.

The last item covers the unexpected payments which might have to be made. The comparison of the two sides of the Finance Book will indicate to the manager the amount of credit available for the money market, or perhaps it might reveal a deficit, in which case the manager would have to call in from the brokers.

Just after ten o'clock in the morning the bill brokers will appear at the bank. If the bank manager finds he has a lending surplus, credit will be extended to the brokers, usually on a seven-day basis. These loans are commonly called "fixtures," and the rate charged is usually less than the rate at which Treasury bills are allotted.

There are also some loans made on a day-to-day basis at a rate slightly lower than charged on the seven-day loans.

Very often towards the end of the day a bill broker will have a client ask him to discount additional bills, or perhaps the broker finds his books short. In either case he applies for credit from the bank and an overnight loan will be granted him. This is a loan which

must be repaid the next morning and on which a comparatively low rate of interest is charged.

It is quite refreshing to note the lack of red tape connected with the granting of loans in the money market. Contracts are often made orally by bankers with bill brokers, to be later followed by the depositing of the documents involved. This is possible because of the standing of the houses dealing in the bills.

The bill brokers will also sell bills to the banks, thereby giving the latter an opportunity to get in their portfolios a diversified form of risk, a spread of maturities, and a paper which is guaranteed by the broker selling it. Thus the banks buy their paper from specialists who are familiar with the standing of the parties to the bill, and who continually keep a watchful eye on the amount of paper put out by the borrowers. The business of the bill broker is only one example of specialization which is so apparent in the English banking system.

When it happens that the banks are not in a position to lend freely to the bill brokers because for particular reasons they are taking money in from the market, the brokers turn to the Bank of England for advances. In this way the Bank of England becomes the final resort of the borrowers, and it is stated during this period that "the market is in the Bank." The above is a rather expensive practice for the brokers because the Bank of England will always

charge interest at a rate of at least one-half per cent above bank rate, and will compel the brokers to borrow for a period not shorter than seven days.

The banks have developed the practice of receiving London deposits on a basis of seven days' notice rather than demand because, as previously stated, the majority of loans are made to the brokers for that period; and thus a seven-day deposit is in the nature of a safeguard in times of emergency. In his admirable book on English banking practice, Dr. Leaf, the late chairman of the Westminster Bank, states this as follows:

> It will be noticed that the ordinary term on which the banks receive their London deposits is at seven days' notice, and is the only one which they publicly advertise in common. It is of small moment that they are prepared to take deposits "at call" at a somewhat lower rate, and in some cases advertise their willingness to do so; here, of course, there is no competition. That comes in only where they are prepared to give higher rates to attract money, and this they are not precluded by the agreement from doing provided they require a longer notice for its withdrawal.
>
> The reason for the choice of this special length of notice is that it is the same period, seven days, which is commonly chosen for the loan of money to the bill brokers; it is necessary for the banks to have a good reserve of deposits fixed for the same period at which they are lending large amounts. And thus it is that the rate of money

on deposits at seven days' notice fixes the rate at which money is lent in the market. Before the war, as we have seen, the deposit rate was always fixed at 1½ per cent below bank rate; but the difference has now been fixed at 2 per cent.[1]

Settlements on the London stock exchange are made fortnightly, and the advances made to the stockbrokers are for fortnightly periods rather than payable on demand, as are those usually made by the American banker. In other respects they are similar to advances by American banks to stockbrokers. However, in the New York market the stockbrokers' loans are practically the only call or short-notice loans made because of the lack of a discount market comparable to that of London. It is evident that sound banking practice frequently frowns upon the advancing of considerable funds to stockbrokers for speculative purposes when the funds so advanced are created to a large extent from demand deposits and when the security behind the loan consists of bonds or shares of stock which at times are subject to extreme fluctuations. It is conceivable that the overlending of this sort of credit, as is sometimes done by our commercial banks, might result in a very serious crisis for the banker, the broker, and all those who deal with them. That some of our bankers recognize this fact is evidenced by the wide and fast-growing use of American funds in the London bill market.

[1]Leaf, Walter, Banking, pp. 217-218, London, Williams & Norgate, Ltd., 1926.

Nothing has been said thus far concerning the loans made directly to trade and industry by the joint stock banks. Such loans are made for a period usually not exceeding six months, although they might be renewed at maturity. These advances are made unsecured in particular cases, or secured by stock exchange collateral or by shipping documents, or warehouse or trust receipts. The rate charged is based upon the bank rate and is usually "one per cent over bank rate varying," and perhaps with a quoted minimum rate. In other words, above the minimum the rate charged varies with the bank rate.

It might be well to point out that the English banks are more free from red tape, in the extension of credit, than are most American banks. One of England's foremost bankers pointed out that he was not impressed with the value of voluminous credit files, but was more concerned with the character and reputation of the prospective borrower. For example, this banker interrupted an interview with the writer for about two minutes during which he passed upon a loan for upwards of two millions of dollars, for which no security was offered, with the remark that the particular borrower was "good for a lot more." He had another request for a loan upon his desk of approximately one hundred thousand dollars. The applicant for credit was a farmer and no security was offered, the application blank merely describing the personal possessions of the farmer and the branch manager's

rating of the individual. The banker in question passed the loan remarking that undoubtedly the applicant had a first rate reputation, otherwise the manager would not have recommended the granting of the loan, and therefore it was good business to extend the credit.

It might be noted at this point, however, that the problems of the English bankers differ somewhat from those of American bankers. For instance, it is practically impossible to inaugurate a new enterprise in England through credit advances by the commercial banker since the latter looks askance at any innovations in the field of business. He is accustomed to dealing with those who have been customers for many years. The financial and economic maturity of England is such that the problem of financing untried enterprises does not often arise.

The discussion of the London money market would be incomplete without reference to the importance since the war of Treasury bills issued periodically by the Government. The issuance and withdrawal of these bills by the Government gives it somewhat of a control of the market, and bankers look to the tenders for Treasury bills as an index of the state of the market.

Recently statements have appeared to the effect that the Bank of England is no longer the regulator of the London money market. The evidence does not support such an opinion. It is true, that the members

of the Big Five carry a substantial cash reserve in their own vaults and thus do not in the ordinary course of business have occasion to call upon the Bank of England, nevertheless indirectly the Bank does render assistance even to the members of the Big Five. When money is tight, the banks refuse to loan to the bill brokers and if possible call in loans previously made to them. It has been stated that in order to get credit to enable them to repay the loans called, the bill brokers go to the Bank of England where they borrow at a rate above the market. The Bank of England takes upon its shoulders the load thrown aside by the other banks.

That the Bank still wields a tremendous influence with its discount rate, and is constantly the cynosure of all eyes interested in finance, was disclosed in answer to a question on this point propounded by the writer to prominent bankers connected with the large joint-stock banks, with the Bank of England, and with private banks. They were unanimous in their statements concerning the tremendous influence wielded by the Bank of England, if "the hidden hand," as she is sometimes referred to, so wills.

The London money market is an amazing example of what specialization and large scale organization can do in the financial world. To an American it is intensely interesting because we have developed our industries by specialization and large scale organiza-

tion but have neglected somewhat our financial machinery. It has been suggested previously that this is probably due to a large extent to cumbersome and inelastic legislation which has not kept pace with the changing economic position of the United States.

CHAPTER III

History of Bank Amalgamations

JOINT-STOCK banks did not develop in England until after the Acts of 1826 and 1833 became operative. This was due to the restrictive clauses embodied in the early Acts of 1697 and 1709 chartering the Bank of England. The latter recited "that during the continuance of the said corporation of the Governor and Company of the Bank of England, it shall not be lawful for any other persons whatsoever, united or to be united in covenants or partnerships, exceeding the number of six persons, in that part of Great Britain called England, to borrow, owe, or take up any sum or sums of money on their bills of notes payable at demand, or at any time less than six months from the borrowing thereof." This provision of the charter was repeated substantially in the same language in the several acts renewing the charter of the Bank, and it was not until 1826 that an act was passed authorizing the establishment of joint-stock

banks with powers to issue notes, but prohibiting such banks from locating within a radius of sixty-five miles from London. It is interesting to note that one of the Big Five, the National Provincial, was founded under this provision. The Act of 1833 affirmed the right to establish and operate joint-stock banks even in London provided the banks did not issue notes, which exclusive function was left with the Bank of England in so far as London and the country around it for sixty-five miles was concerned.

The authorizing of the formation of joint-stock companies to engage in the banking business naturally had a most serious effect on the private banking houses, and during the period 1825 to 1841 the numbers of private banks were reduced from 554 to 311,[1] which was due largely to the rise of the joint-stock companies. It followed that private bankers and even the Bank of England were hostile to the rapid growth of the corporate form of organization, and the latter even went so far as to refuse to discount any bills carrying the endorsement of a joint-stock bank. The private bankers who controlled the London clearing house would not authorize the admission of joint-stock banks until 1854, when six joint-stock banks joined the clearing house. By 1836 the National Provincial Bank had over forty branches in various parts of the country, many of which in themselves

[1]Sykes, Joseph, The Amalgamation Movement in English Banking, 1825–1924, p. 1. London: P. S. King & Son, Ltd, 1926.

were the results of amalgamations. It is pointed out that during the period 1826 to 1843, 122 amalgamations took place, the vast majority representing absorptions of private banks by joint-stock banks.[1] The two banking acts passed in 1844, through restrictive provisions, not only retarded the establishment of new banks but also discouraged the amalgamation of banks, thereby interfering with the natural development of the system. Thus from that date until 1861, only forty-four amalgamations took place.[2]

In 1862 an act was passed authorizing the limited liability of banking shares and including other provisions designed to encourage large-scale banking, and this quite naturally stimulated numerous amalgamations. Sykes in his admirable study of amalgamations quotes a private banker declaring that in 1865:[3]

> The absorption of Jones Loyd and Co. by the London and Westminster, in 1864, marks an era in the history of joint-stock banking. Private banking has now ceased to be of any importance, and the amalgamation of the still existing houses with great Joint-Stock banks has become a mere question of time.

Undoubtedly the failure of Overend Gurney & Co. in 1866, one of the most respected and responsible of private banks, worked to the advantage of the

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[1] *Ibid.*, p. 4,
[2] *Ibid.*, p. 18.
[3] *Ibid.*, p. 32.

amalgamation movement, so that during the years 1862 to 1889 there were 138 consolidations.[1] During this same period banks were rapidly opening branches, and in 1886 over 2700 branches were established in England and Wales. It is interesting to note the following excerpt from a circular put out by Lloyds Banking Company on the occasion in 1884 when they absorbed two large clearing banks:[2]

> The two banks and the partnerships from which they have been constituted have been connected in origin and business relations for upwards of a century, and the Directors are much gratified with this result of their long association. . . . The large and increasing business of the company has for some time past rendered direct representation in London desirable.

Sykes mentions a quotation from the *Daily Gazette* of March 11, 1884, which reads—"There is a prestige about a London bank doing business in the country which an agency cannot supply."[3]

During the thirteen years from 1890 to 1902, 153 amalgamations took place,[4] and if one takes into consideration the many amalgamations which had previously taken place, and which had reduced considerably the number of banking establishments, the

[1] *Ibid.*, p. 30.
[2] *Ibid.*, p. 37.
[3] *Ibid.*, p. 37.
[4] *Ibid.*, p. 47.

many amalgamations taking place during that twelve-year period seem even more significant. The Baring failure in 1890, together with the competitive spirit among the joint-stock banks in regard to size, undoubtedly had an effect in increasing the desire for absorptions, and during this period Barclays alone absorbed some twenty-one banks.[1]

These same years witnessed the rapid growth of large-scale business organizations, other than banking, in the United States, and also the tremendous concentration of wealth by the German banks. The advantages of large-scale production and corporate organization were becoming more and more evident to all, and it became quite clear that the world was entering an era of large-scale enterprise. During this period, in 1896, Barclay & Co., Ltd. was formed and the start of this great bank was in itself the result of competition. Barclay, Bevan, Tritton & Co. had acted for a number of years as London agents for numerous country banks. Due to the increasing competition of other joint-stock banks, they called together the various banks which they represented in London with the idea of suggesting amalgamations between the several institutions, and thus organizing more effectively to meet their competitors. As a result a new joint-stock bank was formed, embracing not only the majority of the banks called together but others as well.

[1] *Ibid.*, p. 50.

From 1903 to 1924, ninety-five amalgamations took place,[1] many of them representing amalgamations between joint-stock banks representing tremendous resources. A good example of this is the amalgamation in 1909 of the London and County Bank, Ltd. with the London and Westminster Bank, Ltd., both of which possessed tremendous resources, numerous branches, and had previously accomplished many amalgamations. It was during this period that the competition between the joint-stock banks became very keen, and it was the desire of the chairmen of the larger banks to consolidate their position throughout the whole of England and Wales, but particularly in the mercantile centers.

During the war years, the large joint-stock banks began to look with covetous eyes towards other parts of the Empire, and it was only a question of a short time before either affiliated or subsidiary concerns were employed by the large English banks to carry on operations in the other parts of the United Kingdom. Prior to 1914, the large German banks had financed the major portion of foreign exchange transactions taking place in London, and with the outbreak of the war, the English banks naturally had to assume the part formerly played by the Germans. As a consequence, affiliated and subsidiary companies were formed to function in various parts of the world. It

[1] *Ibid.*, p. 63.

was in the latter part of December, 1917 that *The Times* printed the following:

> . . . The advantages of large-scale working have been amply demonstrated in the manufacturing industries under the stress of war. And it was found that the handling of the banking situation at the beginning of the war was facilitated by the existence of a few large amalgamated institutions. . . . In financing the war the great banks have been able to do much more than they would have done had they been split up into a number of small unrelated units.

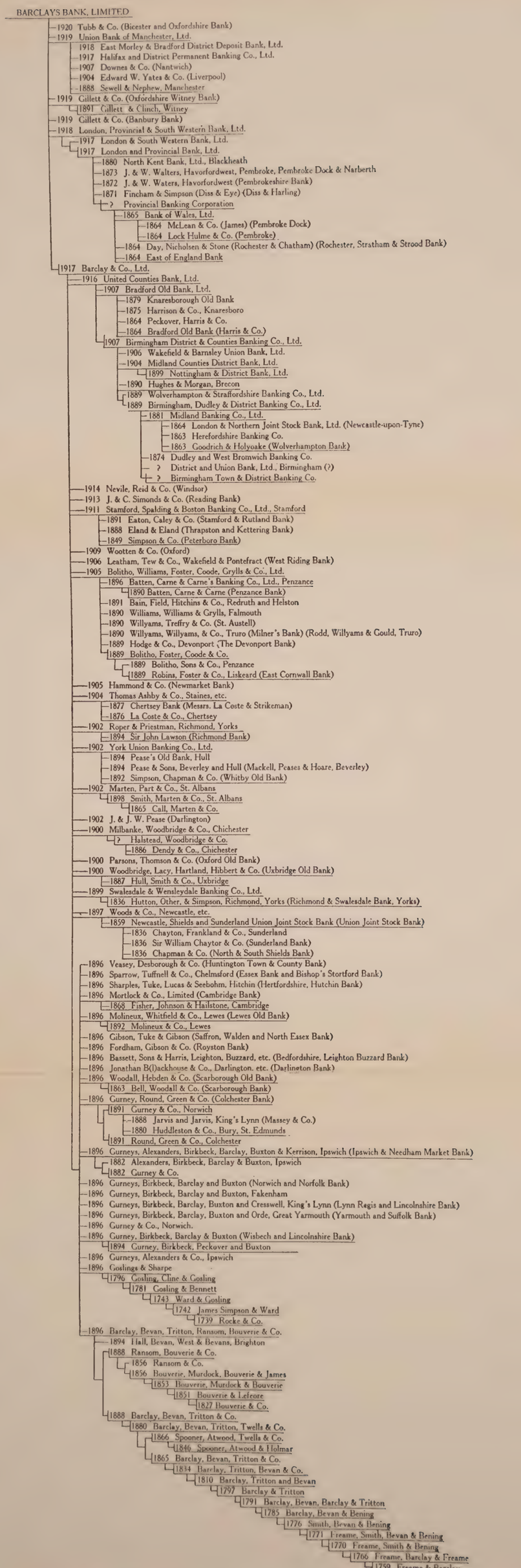
It was during 1918 that the amalgamation movement received a mighty impetus and consolidations between institutions of tremendous size occurred, such as for instance the one by which the Midland Bank absorbed the London Joint-Stock Bank, thereby at one stroke increasing the number of its branches by 308 additional ones. Lloyds took over the Capital and Counties Bank with its 473 branches. Incidentally, the Capital and Counties had risen to its position through taking part in twenty-six absorptions. At the same time Lloyds also acquired controlling interests in the National Bank of Scotland and in the London and River Plate (Argentine) Banks, and later the London and Brazilian Bank, and then the Bank of British West Africa. The London Joint City and Midland Bank obtained control of the important Clydesdale Bank of Scotland, and later in 1924, the

North of Scotland Bank became affiliated with it. Even the largest of the remaining private bankers, Glyn Mills and Co., began to take over some of the older historic private banks, among them Messrs. Holt and Co., famous old established army agents, and the distinguished house of Childs and Co.

The result of the many amalgamations is the group popularly called the "Big Five," i.e., Barclays, Lloyds, Midland, National Provincial, and the Westminster. The extent to which amalgamations made possible the five banks is illustrated in the accompanying table indicating the history of the amalgamations leading to the present position of Barclays Bank, Limited. Similar diagrams showing the amalgamations leading to the formation of the other members of the "Big Five" are shown in the Appendix.

Undoubtedly competition had hastened the creation of these tremendous financial houses, but more important was the pressure put upon bankers everywhere to finance large-scale production and distribution. There is no doubt but that this pressure has been and is being exerted against the banks in the United States, only here our banks are hampered in their evolutionary development by legislation which is cumbersome, inelastic, and oftentimes uneconomic. Even a cursory study of the operations of banks in the eastern part of the United States will disclose a host of amalgamations, affiliations, and consolidations within the last twenty years, but only of course within

BARCLAYS BANK, LIMITED



The above table was constructed from lists contained in *The Bankers' Almanac and Year Book for 1925-6*, pages 313-369. London : Thomas Skinner & Co.

the city in which the amalgamating or consolidating banks are located, except in those states which allow branch banking.

In England there arose some opposition to the concentration of credit in a comparatively few institutions, but this opposition was mainly from those who in business, banking or otherwise, could not withstand the competition offered by a large and well-managed bank with numerous branches conveniently located. Undoubtedly the competition among the Big Five had encouraged some unwise amalgamations and it was this that probably led to the appointment by the Government in 1918 of the Treasury Committee on Bank Amalgamations. The purpose of the committee in the words of the Chancellor of the Exchequer prefacing the appointment is:

> to consider and report to what extent, if at all, amalgamations between banks may affect prejudicially the interests of the industrial and mercantile community, and whether it is desirable that legislation should be introduced to prohibit such amalgamations or to provide safeguards under which they might continue to be permitted.

This committee held numerous meetings calling as witnesses many prominent business men, bankers, and students of banking, with the following results:

1. The committee looked upon amalgamation up to a certain point as a wise move necessary to finance the large-scale enterprises resulting from the war.

2. The committee took the viewpoint that amalgamations had proceeded to an extent making additional amalgamations unnecessary for the time being, because of (a) the writing down of bank capital
(b) the danger of reduced competition
(c) the danger of monopoly

The report is significant enough to justify the inclusion herein of quotations from those sections in which the above matters are discussed.

The committee stated—

"(a) *Writing down of Bank Capital.*—The proportion of capital to deposits is now so small in the case of English joint-stock banks, even excluding the temporary war increase in the amount of deposits, that any further shrinkage of bank capital is clearly undesirable, in the interest of depositors, if it can be avoided. Attention has been drawn to the fact that amalgamation schemes usually mean a reduction in the total paid-up capital and uncalled liability of the two pre-amalgamation units. This has frequently been the case in the past, and it has also been a feature of recent amalgamations and proposed amalgamations.

"(b) *Dangers of reduced Competition.*—Although, in the past, we believe that amalgamations have not, in most instances, led to a reduction of bank competition, yet . . . amalgamations between large joint-stock banks must now usually mean a net reduction

in the number of competing banks. It is true that this reduction is only slight in each case, and that there still remain at present a fair number of competing banks. But we have received representation from certain municipal corporations to the effect that banks vary very much in their willingness to allow reasonable overdraft facilities to corporations, and that sufficient money, and cheap enough money, has only been obtained hitherto by resorting to different banks, the number of which is now falling steadily. On this ground a number of resolutions have been forwarded to us by corporations protesting against further amalgamations, and suggesting that it is not in the national interest that large funds belonging to the public should be in the hands of a few companies.

"Strong representations have, on similar grounds, been made to us on behalf of the Stock Exchange and the Money Market. It is claimed that the worldwide fame of the London Market before the war was due to the freedom with which London bills could be negotiated, owing to the ease with which Discount Houses obtained ample funds from a wide number of banks, and that the fewer the lending constituents in the Discount Market, the less flexible is the market and the less fine the rates. . . . Moreover, it is pointed out that a reduction in the number of important banks must mean, and has already meant, a reduction in the number of first-class acceptors of

bills, and that if this reduction proceeded very far, it would become a question whether the Bank of England would not have to place a limit on the amount of acceptances which they would take from any particular bank doing a large accepting business, and whether Continental buyers would not limit the number of bills taken by them.

"(c) *The Danger of Monopoly*.—It has been represented to us that there is a real danger lest one bank, by the gradual extension of its connections, may obtain such a position that it can attract an altogether preponderant amount of banking business; or, alternately, lest two banks may approach such a position independently, and then achieve it by amalgamation.

"Any approach to a banking combine or Money Trust, by this or any other means, would undoubtedly cause great apprehension to all classes of the community, and give rise to a demand for nationalising the banking trade. Such a combine would mean that the financial safety of the country, and the interest of individual depositors and traders, would be placed in the hands of a few individuals, who would naturally operate mainly in the interests of the shareholders. Moreover, the position of the Bank of England—which would, it may be assumed, stand outside any such Trust—would be seriously undermined by so overwhelming a combination, and the Bank might find it extremely difficult to carry out its very important duties as supporter and regulator of the Money

Market. Any such result would, in our opinion, be a grave menace to the public interest.

"Further, it has been represented to us that the Government of the day might not find it easy to adopt a course of which the combine, for its own reasons, disapproved.

"While we believe that there is at present no idea of a Money Trust, it appears to us not altogether impossible that circumstances might produce something approaching to it at a comparatively early date."

The committee then took what was regarded by English bankers as a very drastic step by recommending

> . . . . . that legislation be passed requiring that the prior approval of the Government must be obtained before any amalgamations are announced or carried into effect. And, in order that such legislation may not merely have the effect of producing hidden amalgamations instead, we recommend that all proposals for interlocking directorates, or for agreements which in effect would alter the status of a bank as regards its separate entity and control, or for purchase by one bank of the shares of another bank, be also submitted for the prior approval of the Government before they are carried out.
>
> As general principles to be acted upon at present by the Government at its discretion, we would suggest that a scheme for amalgamating or absorbing a small local bank, or any scheme of amalgamation designed to secure important new

facilities for the public or a really considerable and material extension of area or sphere of activity for the larger of the two banks affected, should normally be considered favourably, but that if an amalgamation scheme involves an appreciable overlap of area without securing such advantages, or would result in undue predominance on the part of the larger bank, it should be refused. Consideration should also, in our opinion, be given to the question of the clerical labour—usually very large—involved by amalgamations during the war, and to the undesirability of permitting an unusual aggregation of deposits without fully adequate capital and reserves.

The Government accepted the suggestion of the committee and the desired legislation was passed.

CHAPTER IV

The Big Five

THE following table will give some idea of the magnitude of the five banks as of October, 1926:

BANKS	PAID-IN CAPITAL	SURPLUS	DEPOSITS	NUMBER OF BRANCHES[1]
	(in round numbers and in millions of pounds)			*(in England and Wales)*
Barclays	15½	9¼	304	1950
Lloyds	15¾	10	337	1750
Midland	12½	12½	349	1960
National Provincial	9½	9½	255	1208
Westminster	9¼	9¼	270	984
	62½	50½	1515	7852

In addition to the branches in England and Wales included in the above table, the Big Five are represented in other parts of the British Empire, in countries overseas, and throughout the world. The extent of the representation will be indicated further on in this chapter, when these banks will be discussed individually. Incidentally in this discussion, it is inter-

[1]The figures for branches are approximate, as they are continually changing.

esting to note that the members of the Big Five, with the single exception of the Westminster, were well established in various parts of England and then entered London by absorbing a bank located therein, rather than originating in London and spreading therefrom.

The network of branches spread throughout England and Wales is easily visualized by glancing at the map on page 69, showing the country-wide organization of the Midland Bank, including the number of branches of its affiliations in Scotland and Northern Ireland. The other four banks are likewise proportionately well represented in all parts of England and Wales.

Barclays Bank, Limited.—Barclays Bank, it will be recalled, was formed by the powerful private banking house of Barclay, Bevan, Tritton and Co., which was acting as the London agent for a number of provincial houses, and which persuaded, in 1896, a group of these houses to organize as a joint-stock bank under the name of Barclay and Co. Ltd. In 1916, through purchase, Barclay and Co. acquired the United Counties Bank with many branches in West Lancashire, Yorkshire and the Midlands, while a year later it took over the London Provincial and South Western, in itself the result of a fusion of two large banks. Through this latter amalgamation it acquired control of Cox and Co. (France) and later bought up the remaining shares of this company, changing its name to Barclays

Bank (France) Ltd. It also affiliated with it the powerful Union of Manchester and the British Linen Bank. Barclays Bank, unlike the Midland Bank, has taken the lead in securing a foothold in the financing of foreign trade by the development of affiliated banks with branches abroad. An official of one of the affiliated banks pointed out that it was through the possession of branches abroad that banks could render most effective service to those engaged in foreign trade operations

Still later it purchased the major portion of the shares of the Anglo-Egyptian and also of the Colonial Bank. In the Fall of 1926, the announcement was made to the effect that the last two named institutions would combine with the newly absorbed National Bank of South Africa, the new bank resulting therefrom to be called Barclays Bank (Dominion Colonial and Overseas).

Summing up, today Barclays consists of Barclays Bank, Limited with 1950 branches throughout England and Wales; Barclays Bank (Dominion, Colonial and Overseas) with over 410 branches in Africa, Egypt, the West Indies, and Palestine; Barclays Bank (France) Ltd., having 15 branches in France and Algeria; Barclays Bank S.A.I.—Rome and Genoa; British Linen Bank with 190 branches in Scotland; Union Bank of Manchester, Ltd. with 162 branches in Lancashire, Cheshire, and the West Ridings of Yorkshire.

Midland Bank, Limited.—The Midland Bank started business in 1836 as a small country banking company called the Birmingham and Midland Bank. It was due mainly to the energetic and audacious efforts of Sir Edward Holden, who became manager of the bank in the early eighties, that the bank embarked on a career of absorption which did not stop until it became the largest bank in the world. It was not until 1891 that it transferred its head office from the Midlands to London by amalgamating with the Central Bank of London, a member of the London Clearing House. After absorbing the City Bank of London in 1898, it changed its name to the London City and Midland Bank. In 1918 it absorbed the powerful clearing bank known as the London Joint Stock Bank, by which move it strengthened its position in the eastern and northeastern parts of England, thus consolidating its position and giving it substantial representation in all parts of England. In 1924 it shortened its name to the Midland Bank, Limited. Affiliated with it is also the London City and Midland Executor and Trustee Co., Ltd., the title of which is explanatory of the function of the corporation.

During the war the Midland Bank bought the outstanding shares of the Belfast Banking Company and later a controlling interest in the Clydesdale Bank, and by these audacious moves secured control of lucrative banking houses in both Ireland and Scot-

land. This influence in Scotland was later increased by the buying, in 1924, of the control of the North of Scotland Bank, Ltd.

The Midland Bank, in so far as foreign and overseas business is concerned, has worked on a principle

[1]Midland Bank Review—February-March, 1927.

quite different from the other members of the Big Five. Briefly stated, it takes the viewpoint that a bank should use correspondents and agents in foreign countries rather than open up competitive offices. According to the viewpoint of the Midland officials, the creation of foreign branches and offices creates a feeling of jealousy and perhaps even active opposition on the part of the local institutions, and will often lead to retaliatory measures. Then again, by actively using foreign correspondents, the bank at the same time will secure the London and English accounts of these agents, thereby creating profitable accounts. It is a fact that the Midland Bank has more accounts of other banks than any other member of the Big Five.

The Midland therefore consists of Midland Bank, Limited with more than 1960 branches in England and Wales; Belfast Banking Co. Ltd. with 100 branches and sub-branches in Ireland; The Clydesdale Bank Ltd. with 187 branches in Scotland; North of Scotland Bank Ltd. with 157 branches in Scotland; and sub-offices on three large British transatlantic vessels.

Lloyds Bank Limited.—Lloyds started as a partnership in 1765, later being absorbed by a Birmingham bank. In 1884, it bought up the London firms of Barnett Hoare Hanbury and Lloyd, and Messrs. Bosanquet Salt and Co. After that date, it continued to absorb country banks, and in 1918 occurred the important amalgamation with the Capital and Coun-

ties Bank, which had some 473 branches, most of them located in territory not served by Lloyds. Lloyds also took over the West Yorkshire Bank in 1919, and this was followed by the purchase of Fox Fowler and Co., which was of some historical interest, as Fox Fowler and Co. thereby relinquished their right of note issue to the Bank of England, giving the latter institution a complete monopoly of bank note issue in England.

Lloyds Bank early took the lead in securing subsidiary and affiliated companies with which to engage in foreign finance, and in 1911 it took over Armstrong and Co. of Paris, changing the name to Lloyds Bank (France) Ltd., although later on the National Provincial secured an interest therein and the name was changed to Lloyds and National Provincial (Foreign Bank) Ltd. It also controls the Bank of London and South America, which in itself is the result of an amalgamation between the London and River Plate Bank and the London and Brazilian Bank. It also, with other banks, founded the P. & O. Banking Corporation Ltd., which with its affiliated bank, the Allahabad Bank, controls many branches in India, and also has branches in the Far East. It controls 37,500 shares of stock of the Bank of British West Africa Ltd., the remaining shares being held by the National Provincial, the Westminster, and the Standard Bank of South Africa Ltd. It controls the National Bank of Scotland Ltd. and also the National

Bank of New Zealand Ltd. Still further increasing its ramifications in foreign fields, it formed in connection with the Credito Italiano and the Westminster, the British Italian Corporation (London) and the Campagnia Italo-Britannica (Italy), later called the Banca Italo-Britannica.

This therefore gives it control today of Lloyds Bank, Ltd. with more than 1750 branches in England and Wales, and with several in India, Burma, and Egypt; the National Bank of Scotland Ltd. with 159 branches in Scotland; the Bank of London and South America Ltd. with some 50 branches in Argentina, Brazil, Chile, Colombia, Paraguay, Portugal, Belgium, and France; Lloyds and National Provincial (Foreign Bank) Ltd. having 17 branches in France, Belgium, and Switzerland; the National Bank of New Zealand, Ltd. with over 70 branches in New Zealand; the Bank of British West Africa Ltd. with 50 branches in West Africa, Morocco, Canary Islands, Gibraltar, and Hamburg, Germany; the British Italian Banking Corporation Ltd. and its affiliate the Banca Italo-Britannica, which has 5 branches in Italy.

National Provincial Bank, Limited.—The National Provincial was established in 1833 as a joint-stock bank and had a history of continued amalgamations of other country banks, particularly in Yorkshire, Lancashire, the Midlands, and South Wales. Prior to its most striking amalgamation, which occurred in 1918 when it joined forces with the Union of London

and Smiths, the National Provincial had amalgamated over fifty country banks. The Union of London and Smiths previously had taken part in many important amalgamations and as a result was strongly entrenched in the west of England and in Derbyshire, Leicestershire and Nottinghamshire, as well as being essentially a London bank. Following the important consolidation between the National Provincial and the Union and Smiths, the consolidated bank began to look around for other means of strengthening its position and it soon acquired seven important banking houses, among them Messrs. Coutts and Co., bankers to the King and many well-to-do private customers. Because of the importance of the accounts of Coutts and Co., the latter was allowed the use of its name and location, the National Provincial acting as a holding company. During 1923, it acquired the Guernsey Banking Corporation and Messrs. Grindlay and Co., the latter being continued as a private limited company.

As was stated in the discussion of Lloyds, the National Provincial has an interest in Lloyds and the National Provincial (Foreign Bank) Ltd., with branches in France. It also has a large share interest in the Bank of British West Africa, the P. & O. Banking Corporation, and the British Italian Banking Corporation Ltd., terming them associated banks.

National Provincial Bank, Ltd. therefore comprises the National Provincial Bank Ltd. with over

1208 branches in England and Wales; Coutts and Co. with 3 offices in London; Grindlay and Co. with 5 branches in India; Bank of British West Africa Ltd. with some 50 branches in West Africa, Morocco, Canary Islands, Gibraltar, and Hamburg, Germany; Lloyds and National Provincial (Foreign Bank) Ltd. with 16 branches in France, Belgium, and Switzerland; the P. and O. Banking Co. which has 9 branches in India and China; and the British Italian Banking Corporation Ltd. and its affiliate the Banca Italo-Britannica which has 5 branches in Italy.

Westminster Bank, Limited.—The London and Westminster Bank, Ltd. was established in 1834 under the able direction of J. W. Gilbart, and thus is the only one of the Big Five which commenced business as a London bank, although it was not admitted as a London clearing bank until 1854. It was not until 1909 that the Westminster embarked on a series of amalgamations which were to gain for it a place among the Big Five. In that year it amalgamated with the London and County Bank, which had been formed as far back as 1836, and through a large number of consolidations had established a considerable business. In 1917, the Westminster took over the Ulster Bank Ltd., and this was followed in 1918 by the amalgamation with Parrs Bank Ltd., the resulting bank being called London County Westminster and Parrs Bank Ltd. Parrs itself had previously taken part in a number of important ab-

sorptions and thus its accession by the Westminster strengthened the position of the latter, particularly in the Birmingham and Midlands districts. In 1919, the Nottingham and Nottinghamshire Banking Company Ltd. was absorbed, and the important house of Beckett and Co. of Leeds and York was taken over in 1921. This was followed by the acquiring of Messrs. Stilwell and Sons in 1923, and the Guernsey Commercial Banking Co. in 1924. The present name of Westminster Bank Ltd. was given the bank in 1923, when it was thought a shorter name would save time and effort in transmitting information.

The Westminster Bank has entered the foreign field chiefly through correspondents, somewhat similar to the Midland Bank. However, in 1913 it organized the London County and Westminster Bank (Paris) Ltd. The name was changed, in 1913, to the Westminster Foreign Bank Ltd., the entire capital stock being held by the Westminster Bank Ltd. The Westminster Foreign Bank, Ltd. has branches in France and Belgium. In addition, the Westminster has a substantial interest in the British Italian Banking Corporation and its subsidiaries the Banca Italo-Britannica.

Westminster Bank, Limited therefore controls not only Westminster Bank, Ltd. with over 984 branches in England, Wales, and Ulster; but the Westminster Foreign Bank, Ltd. which has 7 branches in France and Belgium; the British Italian Banking Corpora-

tion and the Banca Italo-Britannica which has 5 branches in Italy.

The foregoing brief summary of the ramifications of the Big Five conveys some idea of the centralization of the English financial organization, for after all is said and done, it is the Big Five who carry on the major share of financing English trade and industry.

The development of commercial banking in England to its present position would have been impossible if the principle of branch banking had not been generally recognized by English bankers as a sound economic principle, and one which should not be unduly checked by hampering legislation.

The following quotation from the address of Mr. Walter Leaf, the late Chairman of the Westminster Bank Ltd., on the occasion of the Annual Meeting of the Shareholders of that bank January 27, 1927, is of interest:

> Moreover, their (the Big Five's) management is practically democratic. The holdings of shares in the big five banks are, as you doubtless know, so numerous that each holding represents a very small capital. There are in effect about 275,000 shareholders among the five, owning an aggregate capital of over £60 millions, giving an average holding of under £200: the sub-division of capital can hardly go much further. Moreover, the executive control is entirely in the

hands of the staff. The directors, to whom the duty of supervision is entrusted, are themselves the paid servants of the shareholders.

The Bankers Almanac and Year Book for 1926 gives the number of shareholders as follows:

BANK	NUMBER OF SHAREHOLDERS
Barclays	50,636
Lloyds	63,000
Midland	57,709
National Provincial	39,500
Westminster	69,600

A brief review of the balance sheet of one of the large banks will serve as a means for bringing out some English banking practices.

MIDLAND BANK, LIMITED

Balance Sheet—June 30, 1926

Liabilities

Capital paid up, viz.:	
2,869,079 shares of £12 each, £2 10*s.* paid, £7,172,698; 1,921,677 shares of £2 10*s.* each, fully paid £4,804,193; 688,908 shares of £1 each, fully paid, £688,908	£12,665,798
Reserve fund	12,665,798
Current, deposit, and other accounts (including balance of profit and loss account)	349,460,875
Acceptances and engagements on account of customers	33,346,379
	£408,138,850

Assets

Coin, gold bullion, bank, and currency notes and balances with the Bank of England	£52,509,545
Balance with, and cheques in course of collection on, other banks in Great Britain and Ireland	16,177,435
Money at call and short notice	20,460,117
Investments—	
War Loan, War Bonds, and other short-dated British Government securities (of which £460,523 15*s.* is lodged for public and other accounts), £32,577,790; stocks guaranteed by the British Government and Indian Railway guaranteed debentures, £352,160; British Corporation stocks, £280,640; Colonial and Foreign Government stocks and bonds, £185,888; sundry investments, £73,463	33,469,941
Bills discounted	40,274,005
Advances to customers and other accounts	198,717,421
Liabilities of customers for acceptances and engagements	33,346,379
Bank premises at head office and branches	6,806,055
Belfast Banking Co., Limited	1,291,167
The Clydesdale Bank, Limited	2,667,608
North of Scotland Bank, Limited	2,069,578
Midland Bank Executor and Trustee Co., Limited	349,599
	£408,138,850

Examining the items on the liability side first—*Capital paid up* refers to the amount invested in the bank by the stockholders, and it is interesting to

point out in this connection that with the English joint-stock banks the amount of paid-up capital is only a portion of the authorized capital. Of the so-called paid-up capital, it will be observed that it is not all fully paid. That amount remaining to be paid is usually designated uncalled capital and is regarded as a reserve liability.

Reserve Fund corresponds to surplus in American bank statements.

Current, Deposit, and Other Accounts.—The Current Account might be called the working account of the business man, and corresponds most nearly to the demand deposit accounts familiar in the United States banking system. Generally speaking, the English banks require their customers to keep a certain balance in their current account, and this balance must be large enough to be remunerative to the bank for the cost of handling the account, otherwise the bank will levy a charge on the depositor. However there is no fixed rule or fixed charge in this matter. In addition, an English bank does not usually allow interest on a current account, although competition among the Big Five has led to a variance of this practice in the case of unusually attractive accounts. The Deposit Account is a time account, bearing interest and subject to a specified time notice of withdrawal. The interest paid is usually fixed at two per cent below bank rate. The item Other Accounts is a convenient one for concealing the so-called Hid-

den Reserve Accounts which the bank might be accumulating for certain purposes which it does not care to disclose to the public. It also includes the balance on its profit and loss account and similar accounts.

Acceptances and Engagements on Accounts of Customers.—This includes the contingent liability of the bank arising from the accepting or endorsing of bills, etc., on behalf of its customers. This item is quite naturally offset by a corresponding item on the asset side.

We shall now make a cursory examination of the asset side of the statement—

Coin, Gold Bullion, Bank, and Currency Notes and Balances with the Bank of England.—The only part of these items which needs any explanation is Balances with the Bank of England. The Bank of England is the bankers' bank, and a balance there is looked upon as the same as cash. In the United States the commercial banks which are members of the Federal Reserve System regard their balances with the respective Federal Reserve banks in the same light.

Balances with, and Cheques in Course of Collection—corresponds to Due From Other Banks.

Money at Call and Short Notice—represents the advances to bill brokers, discount houses, and stock-brokers subject to repayment upon demand, or at short notice, which means loans up to ten days. It is important again to point out in this connection

that a large portion of the loans, both call and short-time, are secured by first-class bills, while call loans in the United States are for the most part secured by stock exchange collateral. The funds secured by the bill brokers are in turn utilized in discounting bills of exchange arising out of the actual sale of commodities while stock exchange loans oftentimes represent mere speculation in shares.

An interesting point at variance with banking practice in the United States is the ability on the part of the borrowers, when the loans are called or not renewed, to borrow from the Bank of England. The Bank of England will charge a high rate of interest on these loans, but it removes some of the uncertainty from business when the borrower knows that he can get funds in an emergency.

Investments.—This item is self-explanatory.

Bills Discounted.—This represents bills discounted for customers or purchased by the bank in the open market, and includes both trade and bank acceptances. In addition, this item includes Treasury bills discounted for the British Government. Incidentally, Bills Discounted contains the security for rediscounts which could be made in time of stress.

Advances to Customers and Other Accounts.—This includes loans to customers taking the form of overdrafts (up to a specified point), on current accounts and also other loans. While a large portion of these loans are short term loans (under 90 days), yet in

fact the proceeds are used for varying purposes, some of which require long term credit. As an example, loans are made to enable an individual to purchase a home, or to finance the purchase of machinery by a farmer.

Liabilities of Customers for Acceptances and Engagements.—This is the item offsetting the liability item Acceptances.

Bank Premises—is self explanatory.

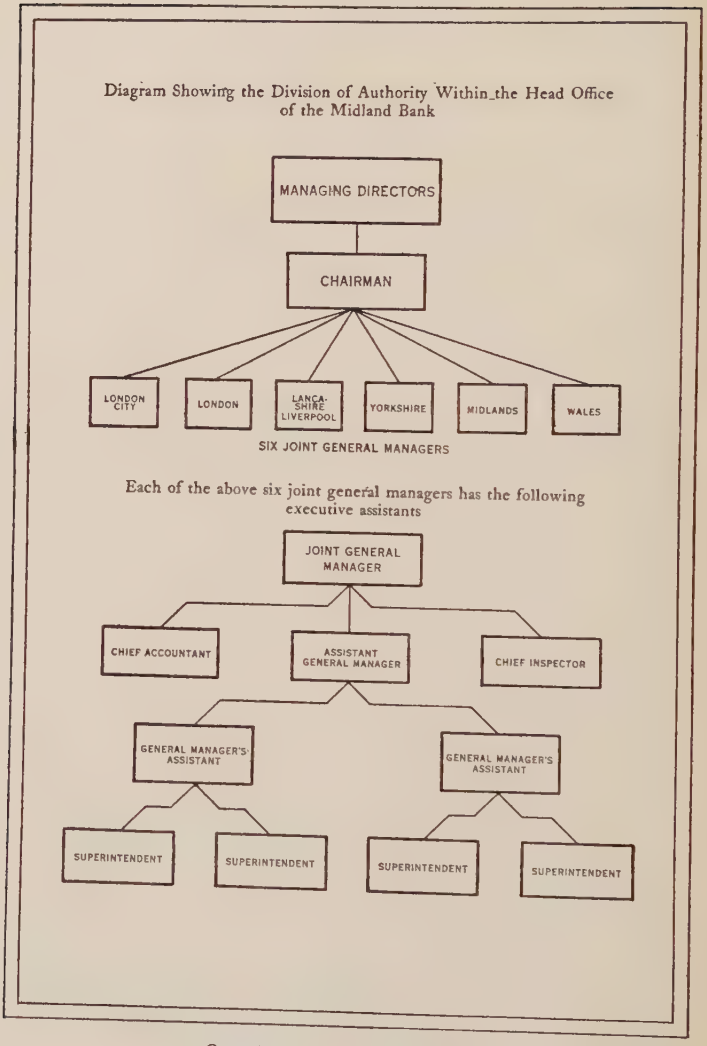
The remaining items appearing on the asset side of the statement given at nominal figures, represent the book value of the interest of the Midland in the several affiliated concerns.

CHAPTER V

Organization of a Bank with Branches

I. DIRECTORS AND MANAGERS

THE rapid growth in size of the joint-stock banks raises many problems of internal organization and administration. In the first place there must be considerable delegation of authority to subordinate officials, and at the same time the responsible head of the organization must be familiar with the condition of the bank as a whole including its branches. The work of the branches must be conducted on the same general lines, and the records and reports must be standardized in order that they may be incorporated without difficulty in the general books kept by head office. It is essential that the branches report to head office frequently and with a minimum of delay. Otherwise head office would be in a position of uncertainty concerning the exact condition of its assets and liabilities. Therefore methods had to be devised in order that head office could check up and supervise properly the activities of its many branches.



Organization of the Midland Bank

The problem of clearing and collecting checks is considerably different under a system of branch banking from that employed in unit banking. In fact large-scale banking operation opens up new problems in all angles of administration, and the English banks have developed a technique which appears most effective. The general principles of organization of all the five large banks are practically the same. Therefore an outline of the organization of the executive control of the Midland Bank can be used for purposes of illustration.

Naturally at the head of the bank stands the Board of Directors, the members of which are elected by the stockholders of the bank and in most cases have a large pecuniary interest in the bank far above the requirements to make them eligible for that office as well as being men of large affairs. Unlike the banks in the United States, there are no legal minimum stock-owning requirements in order to make shareholders eligible for election to the Board of Directors. The Articles of Association of each bank specify the stock qualification of directors, and in the case of Barclays, a director must hold at least £1000 nominal A and £1500 nominal B shares; in Lloyds shares to the extent of £5000; Midland, £6000; National Provincial, £6000; and Westminster, £2000. The usual practice is to elect directors for three years—one-third of the board retiring each year.

When some of the amalgamations took place, the

board of the absorbed bank was retained in an advisory capacity. It was thought that retaining the old board not only would be of assistance to the manager having charge of the particular district but would also have an influence upon the community formerly served by the absorbed bank. Barclays Bank has probably developed this idea to a greater extent than the others.

The Board of Directors is divided into committees, some of which meet daily while others meet bi-weekly or weekly; while the full board usually meets weekly. The Finance Committee, for example, usually meets daily in order to review the financial condition of the bank and in addition to ratify the smaller loans which previously have been granted by subordinate officials; and to pass on the requests for larger advances which the chairman must refer to this committee. It is the practice of at least one of the banks' committees to keep about 50 per cent of its advances in the form of commercial loans, and at the same time to keep their reserves above 14 per cent.

The Board of Directors of another of the banks appoints a rotating committee of three from among its members which meets daily for the purpose of passing on the loans of the institution, and the actions of this sub-committee are in turn passed upon by the regular loan committee which meets weekly.

At this time the general economic conditions are discussed and the state of the money market is

studied in order that the financial policy of the bank may be determined. There usually is a Premises Committee which decides the bank's policy in regard to the location of branches, the erection of new buildings, and the improvement of the physical plants. In addition, certain other committees are appointed either as standing committees or for specific periods who will have jurisdiction over certain phases of the work of the bank.

The duties of the Chairman of the Board correspond to the combined duties of a president and chairman of the board of an American bank. The chairman presides at the meetings of the board; he acts as chief executive in all matters of sufficient importance to be brought to his attention; and he passes personally on all loans above a certain amount. In the case of one of the Big Five, the chairman personally passes on all loans over £20,000, allowing his assistants to review loans for amounts under that sum. In addition, the chairman is continually facing questions of expansion, or contraction, and in seeing to it that his bank is aware of and meeting the many problems which in the course of business arise with institutions of such tremendous size. It is essential that he be assisted by trustworthy and trained bankers, and those occupying the offices of joint managers and their assistants are of the highest type.

It is unnecessary to go into details concerning the duties of the several general managers and their

assistants other than to point out the fact that the bank is divided geographically into districts with a general manager in entire charge of each district of the bank. The general manager in turn delegates authority to his assistants, thus enabling him to concentrate on the more important problems.

Each of the assistant general managers will have charge of a block of branches, and each block will be sub-divided among the general manager's assistants and so on through the superintendents, each of whom therefore will have supervision over the activities of a group of branches. The manager of a branch will have authority to pass on loans up to a certain size, and all loans above that point must be referred to head office where it will pass through the hands of the managers having charge of the particular territory in which the branch is located. Consequently, the application sent in by the manager of the branch, with his comments entered thereon, would pass first through the hands of the superintendent in charge of that particular group of branches. The superintendent has authority to pass on loans only up to a specified amount, and should the application happen to be for an amount in excess of this figure, it is referred to the general manager's assistant, and so on. By this filtering process the executive work is divided. This does not mean that the general managers are not aware of what is going on: they receive reports throughout the day concerning the activities of their

subordinate officers, and are always in a position to check up on their work.

The actual work of overseeing the activities of the staff is usually done by either the chief accountant or the secretary. If it happens to be the chief accountant, in addition to his duties as staff manager, he is responsible for handing in periodically a statement of the bank's condition.

In order to complete the recital of the officials of a joint-stock bank, there is still the registrar to be mentioned. His duties, as his title signifies, have to do with the many details relative to the capital stock of the bank and the relations of the bank with the stockholders.

2. THE DEPARTMENTS

The managing officials of the banks described in the preceding pages have their headquarters in the head offices of the banks in question, which in the case of all the Big Five are located in the financial district of London, close to the Bank of England and the Exchange. Head office therefore is the place or perhaps places in which are located all the departments necessary for the administration of the bank. The rapid growth in the size of the banks has forced head office in some cases to occupy quarters in two or more buildings, and in fact one of the departments of head office—the foreign department—as a rule takes up an entire building for its work. However, these

several buildings are all regarded as head office and classified as such, and the situation will be changed somewhat when the buildings now planned or under construction are finally erected. Because of the tremendous size of the institutions the work of head office is divided among numerous departments, and while it is true that the banks may vary in the exact title given to the department, yet in practice the work of the several departments of head office will fall under one of the following heads:

The Accounts Department
" Advance "
" Bill "
" Bullion "
" Clearing "
" Coupon "
" Foreign "
" Inspection "
" Intelligence "
" Legal "
" New Issues "
" Premises "
" Securities "
" Staff "
" Stock "

While it is unnecessary to discuss in detail the work of the several departments, it may be helpful to indicate briefly their activities.

The Accounts Department.—This department keeps a separate current ledger for each branch on the

basis of written reports received from the managers of the branches and information secured from other departments of head office. It thus collects the accounts of the branches and supplies a statement of the condition of the bank and is under the jurisdiction of the chief accountant. The manner in which the branch manager reports to the accounts department will be discussed later.

The Advance Department.—This department, as its title suggests, controls the loans made by the bank. In doing this it keeps a record of all the loans made by all branches of the bank. Through the supervisory activity of this department, the management can endeavor to diversify the types and amounts and maturities of loans, and to distribute them as widely as possible, both geographically and industrially.

The Bill Department.—This department keeps a record of all bills of exchange discounted for customers of the bank. In addition, it has charge of the bills brought in by the bill brokers who pledge them as security on loans granted to them by the bank. This department also has charge of the collection of domestic and foreign bills for its customers. In some cases the bill department retains the actual bill of exchange, sending it at maturity to the branch from which it originated.

The Bullion Department.—This department has charge of the transfer of bullion and cash from one branch to another, and it also secures new coins and

fresh money from the Mint and the Bank of England.

The Clearing Department.—The Clearing Department has charge of clearing all cheques for the branches, including cheques deposited in the branch office and drawn on other banks. The work of this department will be discussed in a later section.

The Coupon Department.—The Coupon Department or Office, as it is often designated, handles the collection and/or sale of coupons detached from the customers' securites, and also the coupons received for collection and deposit. This office is closely allied with the Stock Department.

The Foreign Department.—The work of the Foreign Department has grown enormously during the last few years, due largely to the expansion of branches and agencies overseas, and also to the closing down during the war of the enemy banks which did a considerable amount of foreign financing in the London money market.

The following quotations from the statement of the operations of the foreign branch office of the Westminster Bank Ltd. gives some idea of the widespread activities of this department.

OPERATIONS OF THE FOREIGN BRANCH OFFICE, WESTMINSTER BANK, LTD.

Commercial Intelligence Department.

The Statistical Department, which contains the latest information on all commercial and financial

matters at home and abroad, is entirely at the disposal of customers free of all charge.

Coupon Department.

Coupons and Drawn Bonds payable either in Great Britain or abroad received for collection or negotiation.

English Bill Department.

Bills payable in Great Britain or Ireland received for collection and approved Bills discounted for foreign customers.

Foreign Exchange Department.

Drafts issued on all principal towns.

Foreign Bills payable abroad collected or negotiated after approval.

Foreign notes and coins bought and sold.

Letters of Credit in foreign currencies issued payable at any important town abroad.

Mail and telegraphic payments made.

Foreign Collection Department.

Cheques or documentary drafts payable abroad collected at the finest rates.

Insurance Department.

Floating Policies taken out and Insurance effected for Bonds, Notes, Valuables, Merchandise, Ships, Freights, etc.

Merchandise Department.

Payments effected in Great Britain against delivery of documents.

Commercial Credits opened in Great Britain and

Ireland and all places abroad in connection with the import and export of merchandise.

Shipping Department.

Bail arranged for the relief of vessels held up through collision or other causes.

Collection of shipping freights arranged.

Stock Department.

Stocks and Shares purchased and sold for customers on the London Stock Exchange and foreign Stock orders executed abroad.

Currency Accounts.

Accounts opened in £ sterling and foreign currencies.

The foreign department divides its activities into sub-departments among which are a translating department, a correspondence department, and a clearing department, necessary to take care of the work of the bank arising in exercising its function as agent for many foreign banks. Then there are the mail transfer department, which transfers credit upon the advice of its customers and which may also issue letters of credit; the shipping department, which collects charges incurred in the shipping of cargoes; the currency accounts department, which has to do with the accounts of the English bank in foreign banks. The sterling accounts department has charge of the accounts of the foreign banks kept in the English bank. There are the telegraphic transfers department; the inland bills department; inland payments

department; securities department, which buys and often holds securities for customers of the foreign banks for whom the English bank acts as agent; commercial credits "outwards" department, which opens foreign bank credits called "outwards" for merchants and others; the commercial credits "inwards" department opens commercial credits "inwards" in favor of British exporters. There usually is a "foreign bills for collection" department; and lastly the dealing room itself, which is concerned with the buying and selling of cable transfers and also quotes rates to other departments.

The Midland Bank has established branches on board several of the important British transatlantic liners, namely, the *Aquitania*, *Mauretania*, and *Berengaria*. These branches do a considerable foreign exchange business, and the work of their staff comes under the jurisdiction of the foreign department.

The Inspection Department.—Unlike the methods in vogue in the United States, the English banking system is not supervised by Government inspectors. The English banks have a separate department under the control of a chief inspector, for the purpose of examining periodically the general condition of the branches, paying particular attention to the condition of the loan accounts. It is this department that is responsible for seeing to it that the several branches are carrying out the regulations of the head office. One of the banks has five chief inspectors working

under the jurisdiction of the Inspection Department. These inspectors are located in London, Liverpool, Manchester, Leeds and Bristol, and from these centers visits are made at least twice annually for the purpose of examining the affairs of the several branches.

The Intelligence Department.—The Intelligence Department collects information both general and specific for the use of the bank officials and their customers. It publishes the bank periodical which is issued monthly containing digests of economic conditions in the parts of the world served by the bank and its customers, and it very often looks after the advertising done by the bank.

The Securities Department.—The Securities Department has charge of all the securities which are offered as collateral on advances to customers, and in addition it keeps the records of the securities deposited by customers with the bank for safe keeping. The heads of this department must see that the documents accompanying the collateral are in good legal order.

The Staff Department.—The work of the Staff Department is quite similar to that of the Personnel Department of an American bank, although when one takes into consideration the large number of employees which are needed in the larger banks of England and the fact that most of the junior officials are recruited from the ranks, the work of this department is most important. Most of the large banks take on boys generally between the ages of sixteen and

twenty, and usually upon the recommendation of one of the customers or shareholders of the bank. It is quite difficult for a young man to obtain a position in the banks unless he has strong recommendations from influential depositors or shareholders. For the first three or four years a low wage is paid the new employee, but the brilliant worker has a possible chance of becoming a junior official of the bank after a few years of service and then he can look forward to becoming a manager of one of the branches. The members of the staff are encouraged to take up courses with the Institute of Banking and in fact promotion is predicated upon the successful completion of the prescribed course in the Institute. This is a most excellent course. It includes the various phases of economics, English, foreign languages, as well as banking and foreign exchange. It might be stated that recently university men have been taken on in increasing numbers, but the experiments have not been of long enough standing to justify a real comparison between the work of the university men and those who have entered the employment of the bank at an early age. In the Staff Department there is usually a staff superintendent who has charge of the employment of the junior workers and sees to it that they keep up their membership in the various insurance funds provided by the bank. He also keeps a record of the rating of the staff and therefore is in a position to make recommendation for advancement

when asked to do so by the management of the bank. There is no fear on the part of faithful employees of being summarily discharged. Employees in some of the banks are compelled to subscribe to Guarantee Insurance Funds, to the National Health Insurance Funds, and in many cases to the Mutual Provident Fund created for widows and orphans of banking employees. A pension of approximately two-thirds of his income awaits a retiring employee, retirement in some instances taking place at age sixty. The labor turnover among the employees of an English bank is not nearly so great as is the case in most American banks, and this leads to the creation of an esprit de corps among the employees which in turn increases the productivity of the force.

The Stock Department.—The work of the Stock Department is particularly interesting because of the vast amount of business done by it. This department acts as the agent for the customers of the many branches of the bank in the purchase and sale of securities listed upon the stock exchange. The bank itself does not buy or sell the securities: it is acting in the capacity of a broker; although in fact it always employs a regular stockbroker and the bank and the employed broker share between them the commission which results from the sale. Thus, for example, a depositor in one of the branches of a bank might ask the manager to advise him concerning the investment of a savings of £2000. The manager would probably

show him a broker's list of securities—perhaps advising him concerning the merits of this or that security—but in no case will he take responsibility for the opinion of the broker. If the order is given, the manager will transmit it to the stock department, which in turn passes the order on to one of the many brokers with whom it deals. If a customer of one of the outlying branches desires to buy for speculative purposes certain shares listed on the Exchange, he simply gives his order to the manager of the branch who in turn will pass it on to the stock department in head office. Incidentally, the bank is credited by stock office in the favor of the branch from which the sale originated, so that each morning the stock department is receiving hundreds of orders to buy and sell various types of securities and these in turn are handed over to the many brokers employed by the bank. Within the last few years the stockbrokers have complained concerning the increasing amount of business of this type dealt in by the Big Five and the banks have now taken it upon themselves to employ in some cases a hundred or more London brokers in addition to a number of provincial brokers.

The sales are made on either a cash basis or what is called "for settlement." If a sale is made on the latter basis, cash payment is not required from the purchaser of the stock until the following settlement date falls due. Ordinarily settlement days on the Exchange take place about once a fortnight and quite

often therefore a purchaser of stock will have two weeks' time to make payment of the same. The bank accounts of the brokers are kept in branches of the bank which has employed them in purchasing the security, and the settlement between the broker and the bank very often amounts in itself to a bookkeeping operation. Thus if the bank owes the broker a certain amount, this sum is credited by branch advice to the branch in which the account of the broker in question is kept. When the broker owes the bank a sum it is usually settled by the former giving the bank a cheque.

The above discussion of the work of the departments covers practically all the work of head office, although there are usually some additional minor departments in that office, such as the New Issues Department, the Premises Department, and the Legal Department.

Head office also redistributes fresh money among the branches, receiving in return the soiled and worn notes. In the case of notes on Scotch and Irish banks, which have been deposited with the branches, head office receives such notes and sends them around for credit to the London offices of the Scotch and Irish banks. Head office on its part sends a daily report called Head Office Advice to the manager of the branch. This report contains acknowledgment of items received prior thereto from the branch and also states the total amount of cheques drawn on the

branch and cleared through head office and the London Clearing House.

Branches transfer credit to other branches or to head office by a method designated as "giving credit by branch advice." Thus, for example, the York agency of a large London mercantile house wants to credit its London office account with deposits made at the York branch of the Midland Bank. The York branch will transfer the deposit credit to the London branch of Midland used by the mercantile firm in question by crediting the London branch of Midland for account of the mercantile company, and sending this information on branch advice forms to the London branch and to head office where the transaction is entered on the Branch Advice Account.

Head office also keeps a Remittance and Sundries account for the purpose of balancing branch accounts when one branch takes the initial step in claiming credit or cash from a second. This account is naturally a "wash" account similar to Branch Advice Account.

The manager of a branch sends in a weekly report called the *Weekly Abstract*, which gives the statement of the assets and liabilities of the branch other than cash, which is reported on the Daily Return. In order to make up this report, it is necessary to check up and balance the books of the branch.

All requests for advances or loans are referred to the Advance Department of head office by the man-

ager of the branch, except in cases already noted, where a manager possesses certain discretionary powers. Even in those cases, however, the manager must report immediately to head office full particulars concerning the loan granted. In addition, the manager must make frequent reports on the condition of all loans, and it is the duty of the Advance Department of head office to investigate and review quite thoroughly all advances made by the bank, including all branches.

Either quarterly or semi-annually the bank makes up a profit and loss statement. In order to do this it requires the branch to send in a report called the quarterly or half-yearly abstract, the title depending upon the period covered therein. This statement contains the accounting picture of the condition of the branch for the period, and it is usually accompanied by supplementary statements containing more detailed information concerning individual accounts and other matters of interest to head office.

As was stated previously, the inspector's department periodically checks up the work of each branch. This inspection takes place at least once a year for each branch. Thus it can be observed that head office keeps a close check upon the activities of the branch, and the manager in head office who has charge of a particular district keeps himself fully informed as to local conditions and needs, and he is conversant with the activities of the branch in meeting these condi-

tions and needs in competition with branches of other banks located in the same district.

3. CLEARING

The clearing of cheques by this department is facilitated by sub-dividing the work into the following groups: (1) town clearing, (2) metropolitan clearing, (3) country clearing, (4) walks clearing, (5) agents clearing, and (6) branch clearing.

The largest part of the work of clearing cheques falls on the London Clearing House, which is located within a short distance of the head offices of the five larger banks. This clearing house not only clears cheques arising out of London transactions, but also for all parts of England and Wales.

There are also local clearing houses located in the following provincial towns: Birmingham, Bristol, Hull, Leeds, Leicester, Liverpool, Manchester, Newcastle-on-Tyne, Nottingham, and Sheffield. These clearing houses in most cases clear cheques drawn on and by banks located within the town and its immediate vicinity. This obviates the necessity of sending cheques to London, and as all the towns are of considerable size, it affords a saving of time and expense. It is important to note that the cheques cleared through the provincial clearing houses must originate and be drawn on a bank located within the clearing district, otherwise it will be sent to the London clear-

ing house. For example, if a cheque is drawn upon a Bristol bank but deposited for collection in a Liverpool bank, the cheque would be sent to London for collection, and not to the Bristol clearing house.

The London clearing house has divided its clearing into three groups—town, metropolitan, and country—and when a clearing bank opens a branch the committee of clearing bankers decides the particular clearing through which the branch will operate. There are no precise or definite rules as to what areas shall be included under the designation town, metropolitan and country clearings. Generally speaking, branches located within a ten-minute walk of the clearing house are put in town clearing and the cheques falling therein are cleared twice daily, which means a great deal to business men dealing with large cheques. Metropolitan branches are those banks that are within about a half hour's distance from the head office, and so situated that they can conveniently send a messenger to head office at least twice daily. All banks not included in town and metropolitan clearings are located in country clearing.

The member banks of the London clearing house all keep accounts with the Bank of England, and any balances which remain after the day's clearing operations close are settled through their accounts with the Bank of England, thus obviating a daily exchange of cheques. This bookkeeping device means a considerable saving of effort on the part of the member banks

in balancing interbank accounts. If, as the result of the daily clearing, a balance is due a clearing bank, the clearer will fill out a green ticket as follows:

SETTLEMENT AT THE CLEARING HOUSE

LONDON

.....19.....

To the Cashiers of the BANK OF ENGLAND.

Be pleased to *credit* our Account the sum of.....

.....

out of the money at the credit of the account of the Clearing Bankers.

£.....

Seen by me

.....Inspector of the Clearing House.

SETTLEMENT AT THE CLEARING HOUSE

BANK OF ENGLAND

.....19.....

The Account of Messrs.....

.....

has this evening been *Credited*

with the sum of.....

.....

out of the money at the credit of the Account of the Clearing Bankers.

£.....For the BANK OF ENGLAND

.....

If, on the other hand, a bank has an amount due to other banks, a white transfer ticket will be filled out as follows:

SETTLEMENT AT THE CLEARING HOUSE

LONDON

.....19.....

To the Cashiers of the BANK OF ENGLAND.

Be pleased to *Transfer* from our Account the sum of.....

.....

and place it to the credit of the Account of the Clearing Bankers, and allow it to be drawn for by any of them (with the knowledge of either of the Inspectors, signified by his countersigning the drafts).

£.....

SETTLEMENT AT THE CLEARING HOUSE

BANK OF ENGLAND

.....19.....

A *Transfer* of the sum of.....

.....

has this evening been made at the Bank, from the Account of Messrs.....

to the Account of the Clearing Bankers.

£.....For the BANK OF ENGLAND

.....

This Certificate has been seen by me

.....

Inspector.

There are four clearings daily—two in the morning and two in the afternoon. The first clearing takes care of the metropolitan cheques and bills, the second

is for the town cheques which have been accumulated over night. The first of the afternoon clearings deals with the country cheques, while the final clearing takes care of the town cheques which have turned up after the completion of the earlier town clearing in the morning. When the cheques are sent in from the branches to head office for clearing they are crossed in a manner similar to one of the two following illustrations:

A.....Bank, Limited
Southampton
Remitted to Head Office,
London.

A.....Bank, Limited
Southampton
to
Head Office.

Cheques marked T, town clearing, paid in a bank located in the town clearing district are cleared the same day; if paid outside the district it will take two days to clear them. Checks marked M, metropolitan clearing, normally require two days; and for C, country clearing, three days is the usual time.

Quite naturally the greatest part of the work of clearing the cheques is done in head office, the clearing department dividing its work up so that one group of employees handles town cheques, another metropolitan, a third country, and so forth. Therefore the first thing to do in the morning is to separate the cheques according to the aforementioned classification. They are bound together with differently col-

ored bands such as green for country clearing, purple for metropolitan, etc., in order to make them easily distinguishable. Then they are sent to the respective "out" clearing sub-departments within the clearing department, where the subsequent procedure is practically the same in all cases. The "out" clearers will sort the cheques and place them in the proper racks of which there is one for each clearing bank, such as Barclays, Midland, Westminster, etc. Every so often another clerk, taking a bunch of cheques from the rack, will total them or perhaps will make more than one sub-total, turning the cheque in the bunch face downward at the point where he totals them. He does this in order that the clearing house clerk will know a check has been made at the particular place. This operation is called "filleting," and after it is completed the cheques are sent down to the clearing house for presentation to the banks on which they are drawn. The "in-clearing" department takes possession of the cheques drawn on its bank after they are sent up from the clearing house, and the "in-clearers" sort the cheques into several sections and then from these sections they are sorted according to the branches on which they are drawn.

Clearing in England is greatly simplified when a large number of cheques drawn on branches of the same banks and presented for payment at its branches do not have to be sent to the clearing house, but are cleared, sorted, totaled, and sent to the drawee

branches. This is called branch clearing and by this intrabank clearing a great deal of time and energy is saved. The cheques sent to the branches located in the town area are called "town remittance," while those in the metropolitan are known as the "head office charge." These cheques are usually sent to the branches prior to the receipt of the clearings from the clearing house in order to expedite the clearing operations. Cheques drawn on branches located in the country area are cleared by a sub-department called "branch clearing." The cheques are sorted and totaled in the morning and mailed to the respective branches in the afternoon.

Quite frequently cheques drawn on banks in the Channel Islands and in Scotland or perhaps Ireland turn up, and these are cleared through "agents clearing." In the past these were cleared by sending the cheques to the collecting bank's agent located in one of the aforementioned places. However with the affiliation of Scotch and Irish banks with some of the Big Five, the cheques drawn on banks located in Ireland and Scotland are sent to the affiliated banks for collection and a collection charge is made for all cheques drawn on Irish and Scotch banks other than the affiliated ones.

There are also a considerable number of cheques drawn on foreign banks and bankers which are turned in to the five banks for collection. These cheques are cleared through the walks clearing and are collected

by runners sent out from the division of the clearing department called Head Office Walks.

4. BRANCH ORGANIZATION

It was essential for the large English banks to standardize as much as possible the methods of organization and administration of the numerous branches. Branches vary in size and importance; in one there are several hundred employees while in another two or three employees do all the work. The system worked out by the English banks takes this into consideration. At the head of the organization is the manager who, if the size of the branch warrants, would have one or two assistant managers. The manager is responsible to head office only and must send in daily reports to it.

Naturally the principal work of the manager is to increase the business of the branch by all legitimate means. In doing this, he keeps in close personal touch with his community in order to attract deposits and also to get first-hand information concerning those who have received loans from the branch or those who might request credit at some future date. It has been stated previously that the manager of the local branch has jurisdiction in so far as loans are concerned up to a certain point, then he must refer the application to his superior officers at head office. The limit to the manager's ability to grant loans varies

according to the importance of the branch and his own past record.

Each branch has an accountant who assists the manager in administration if there are no assistant managers, and in addition supervises the activities of the remaining members of the staff of the branch. The accountant also has charge of the bookkeeping operations of the branch.

Next come the cashiers who perform duties similar to the tellers in an American bank. They have entire charge of the payment and receipt of cash and its equivalent.

It follows that the number of clerical assistants and the nature of their work varies with the size of the branch. Some of the branches are of great size, and it has been found advisable in certain cases to effect a geographical decentralization by designating a particular branch a sub-head office for a specified zone or district. This, of course, tends to reduce the overhead work necessary at head office.

The work of a branch of some size is sub-divided into several departments. There is the "waste office" where the deposited or cashed cheques are entered in the "waste books" under the appropriate clearing headings. The forms of the waste books in use vary among the five banks, but the purpose in all cases is the same, namely, to secure an accurate picture of all the transactions of the branch.

What is frequently called the "day book" depart-

ment works in conjunction with the clerks making the necessary entries in the customers' ledgers. This department keeps the so-called day book or current account book which separates the debits and credits according to the ledgers in which they are posted, and thus acts as a check upon the ledgers themselves.

The correspondence department has charge of all correspondence, while the securities department in the usual branch will perform a number of duties. This department has charge of the deposited securities of customers, clipping and collecting coupons when so instructed. It arranges foreign exchange transactions; it has charge of the discounted bills and also has the deposit accounts of customers under its jurisdiction.

It was shown in the preceding pages that it has been the practice of the large joint-stock banks to establish a head office from which the managerial staff directs the activities of the many branches, including the banking department or branch located in the head office building. The head office formulates the policies of the bank and it is in active communication with all the branches concerning loans, deposits, the cash position, and other matters of importance. In order to do this efficiently, the banks have standardized the form of the reports sent to head office by the several branches. For example, the manager of each branch is required to send in to head office at the close of business each day a state-

ment of the cash position of the branch. This is called the Head Office Daily Return, and this indicates to head office whether or not a proper distribution of reserves exists among the branches. The branches carrying a higher reserve than necessary are instructed to send the surplus reserve either to head office or to a nearby branch having insufficient reserves.

CHAPTER VI

Conclusion

BRANCH banking as practised in England is regarded favorably by English bankers and business men. Its appearance in the system is regarded as the result of the normal evolution of a banking system unhampered by restrictive legislation—a system which has developed in a manner best suited to meet the needs and demands of a growing and changing industrial and mercantile world.

While in England there is some regret expressed over the virtual disappearance of the old school private banker, yet it is generally recognized as inevitable and the result of the economic growth of England to the point where the small banker with comparatively meager resources could no longer adequately finance trade and industry.

Methods of manufacturing, transportation, and merchandising have all developed rapidly since the time of the industrial revolution, and the rapid growth in size has led to increasing demands for larger amounts of credit.

It follows, when the commercial banks do not keep pace by increasing resources, that industry will be considerably handicapped because sufficient credit will not be available for their current needs. This is evident in the United States where many of the large corporations have been forced to use the stock market as a source of current capital, because of the inability of the relatively small commercial banks to advance sufficient amounts of credit. The growth of banks is dependent to a large extent upon the ability to maintain branches—English experience has demonstrated that bank amalgamations and branch banking go hand in hand, in fact one of the outstanding advantages arising from bank amalgamations is the ability of the resultant institution to maintain conveniently located branches. It is also true that a bank can reach tremendous size only through the medium of many strategically situated branches. The increasing number of urban branch banking systems—primarily through amalgamations and consolidations—in the United States seems to follow along lines similar to the development of the English systems in so far as is permitted by inelastic and cumbersome legislation. But the resources of these institutions are limited by the restrictions against the widespread development of branch banking. Large scale banking, which necessarily must take the form of branch banking eliminates to a great extent a practice which goes with unit banking. Early English banking experience, as well

as present day banking experience in the United States, clearly demonstrates the costly results of the frequent and hazardous practice of over expansion of credit during periods of prosperity on the part of the comparatively small banks and the consequent inability to liquidate and to reduce credit advances rapidly enough to meet the demands of their depositors during times of declining business activity.[1]

It is quite evident that branch banking in England centralizes credit resources. Even a brief glance at the statements of the Big Five reveals the extent to which credit has been pooled under the control of the five institutions. All trades and industries are represented in the bringing together of this vast reservoir of credit, and all trades and industries are borrowers of the credit. This diversification of borrowers' interests reduces considerably the risks involved in credit extensions and thereby safeguards the

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[1]In the course of the testimony of the attorney for the California State Department of Banking before the House Committee on Banking and Currency there appears the following statement:

"There is in one little town in our State now a branch bank that has an impairment of its branch there, so to speak. They have frozen loans in that particular branch that amount to about $400,000. If a local bank of the size that that community could support had those losses it would be broken; it could not stand it. That did not even feeze this bank. It will take care of them and will carry those frozen loans two or three or four years, if necessary. Why? Because the money is coming in from somewhere else, and the community gets the benefit of it. That is the safety factor and that is the benefit at the same time that comes from state wide banking."

Statement of Mr. James M. Oliver, attorney for California State Department of Banking. Hearings before the Committee on Banking and Currency—House of Representatives, 68th Congress, First Session of H. R. 6855—pp. 145–146.

depositor.[1] The banks through their branches can circulate credit with more or less speed depending upon the urgency and needs of the occasion. For example, a manager of a branch was called on the telephone during an interview with the writer and asked if the bank could lend a certain customer $1,250,000. He replied to the effect that he did not have available this amount but that he would make every effort to get it for the customer. He stated to the writer that the borrower in question was a very valuable customer of the bank and that the bank must see to it that his legitimate credit needs were met. The amount was finally secured by taking surplus funds from several of the other branches of the bank. This illustrates one of the ways in which branch banking enables a bank to care more adequately for the needs of its customers.

Mr. Edmund Platt, Vice-Governor of the Federal

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[1]In this connection another quotation from the testimony of the attorney for the California State Department of Banking is of interest.

"In all farming communities that I know anything about there is a peak load of demand. It is seasonal with us in California, though very well distributed over the 12 months. We have, perhaps, beginning of the demand up in the upper citrus district belt in December and in the southern citrus belt in January; lettuce and vegetables in the Imperial Valley in February and March; and asparagus up in the valleys in April; also dairy products, etc.; deciduous fruits in the early summer, and berries, such things as that, and canning stuff. Then our grains, then walnuts and almonds, and various cereals that come in in the fall, and so on through the 12 months of the year practically in rotation. What happens? One dollar in a branch bank institution will do the work of $2 in a unit bank, and do it at the time when it is necessary. Why? The central office has the funds to distribute; they send them down into the cotton belt of the Imperial Valley when the demand for cotton marketing is on. When through

there, in either 30, 60 or 90 days, as the case may be, it moves on into the citrus belt, into the bean belt, into the raisin belt, into the prune belt, or whatever may come next, all the way through, the funds are made available.

"The money then in that locality where it is not being needed, instead of staying in that branch bank, is sent back to the head office, and the head office shoots it on to the community that needs it in greater quantities. The unit bank can not do that; the unit bank, if it had enough money to take care of the peak demand 30, 60 or 90 days that the demand is on, would have to have more money than they possibly have in capital and surplus, and would have to have for the rest of the year the money unemployed or out at comparatively unremunerative rates of interest in quick-time paper, or something of that sort. On the other hand, the branch bank has its money employed continuously 12 months of the year. The bankers know every year exactly the same time they will need that money at the same place; not a sudden demand, but a demand ordinary and usual and which rotates year after year, and for which he has to make complete provision.

"I will take one large branch bank in the State of California. I will state now from the records that that bank is supporting two communities in the State of California that would be bankrupt today as banking propositions if that bank was not there. Why? Because in the Imperial Valley, in the raisin belt, in the bean belt on the coast and in the rice section in the Sacramento Valley, we have had just as bad a farming condition as they have had in the Northwest; and it is not just a little bit of a proposition in the center of our State. Those areas are larger than many in your Eastern States, and we have had complete crop failures of the major crop within the last four years in each of those districts, running in some instances as long as three years; and what is the result?

"That bank not only held up the community, but held up the other banks, all those banks that were not able to take care of themselves they took over, and prevented them from breaking, prevented the people from losing a dollar, prevented that locality from going bankrupt. Did that bank become strained? A little. But it did not hurt it much and it is going on fine now, a strong bank, no impairment of capital or any possibility of it, stronger than it ever was before. Why? Because what it lost in that community because of conditions there, of frozen loans—it carried some frozen loans where a local bank could not, because a local bank would have been frozen so tight that it would have bursted—but because it was gaining deposits somewhere else, where if it lost in that locality, the citrus belt, for instance, was doing fine, and the center of deposit in the metropolitan district was going strong because commercial conditions were good, it took plenty of money and made progress in those localities to recover in the localities where it lost."

Statement of Mr. James M. Oliver, attorney for California State Department of Banking, Hearings before the Committee on Banking and Currency—House of Representatives, 68th Congress, First Session of H. R. 6855, pp. 139–145.

Reserve Board, in an article[1] suggests in connection with the many bank failures in the United States the following interesting remedy to prevent the failures:

> It seems to me that the remedy is clearly suggested by the evidence presented. We must have larger banks, banks large enough to afford good management and large enough to spread their risks over a variety of industries and over a considerable territory. The larger banks have a better chance to weather financial storms because they are able to secure, and generally do secure, good management, and also because they are not under the same temptation to put all their eggs in one basket. The large bank serves, as a rule, a greater variety of industries than a small bank and often spreads its loans so widely that it cannot be vitally affected by disaster to any one industry.

A review of the tremendous financial crises that England has successfully weathered during the war, the post-war period, and the period of industrial unrest which followed thereafter, compels a feeling of admiration and utmost respect for its banking system. That no small part of the credit is due to the relatively few but large banks established as a result of amalgamations is the testimony of many persons in the banking profession in England. A very prominent banker, chairman of one of the Big Five, told the

[1]Trust Companies Magazine, June, 1925.

writer it would have been impossible to have financed the war, have got the pound back to par, and to keep it there, without institutions with tremendous financial resources so constituted that credit can be readily mobilized, transferred with ease from one part of the country to another, and capable of ready expansion and contraction. In this connection, it is important to bear in mind the fact that the Bank of England, unlike the Federal Reserve system, does not issue a currency possessing a potential capacity for much elasticity. The war-time currency, issued by the Government in the form of Treasury notes, is also inelastic and consequently most of the burden of creating expansion and contraction of credit is placed upon the large joint-stock banks.

During the present trying days replete with industrial disturbances as well as international strife, England's banks have become familiar with "frozen credits," but up to the present time, not with the disastrous results experienced by many banks in the United States. The concentration of resources and the diversification of loans in portfolios of these banks have enabled the Big Five to renew and extend credits to industries temporarily depressed. Industries thus assisted have remained solvent and have continued operations, whereas if the banks had been forced to demand the repayment of the loans, both industries and banks would have suffered. While the study of business cycles is comparatively new, it has

convincingly disclosed the periodical appearance of depressions of more or less severity to be followed sooner or later by activity and so-called business prosperity. If fundamentally healthy businesses by the use of extended credit are enabled to bridge over the period of depression, they will be in position to take advantage of the revival of business activity, the earnings of the banks will be greater, and incidentally the carry-over by the banks of such industries will tend to reduce the severity of the depression because the results of insolvency are cumulative and far reaching. The ideal bank portfolio contains paper representing advances made to many diversified industries with a wide geographical spread. Such a portfolio becomes a reality in the case of the English banks with branches throughout the country. This, unfortunately, cannot be said of most of the unit banks operating in the United States, where the majority of the bank failures previously referred to were caused by the extension of credit to customers representing too limited a number of industries. The opportunity for making loans based upon diversified security does not exist in the case of most of the unit banks, because they are usually located in "one industry" sections of the country. The banker, of necessity, must lend most of the institution's funds to the local community. In fact, the chief avenue of escape from making local loans is through the call market in New York City and if he avails himself of this

market the banker is subject to criticism on the grounds of encouraging speculation in the stock market.

Branch banking in England has simplified and quickened the clearing and collection of cheques. It is obvious that intrabank cheques can be readily and rapidly cleared through head office, but furthermore, as has been mentioned previously, the fact that the head offices of the five joint-stock banks are all located in London has made it possible to concentrate and clear a large proportion of interbank cheques through the London Clearing House. As a result, there exists in England a rapidity of clearing impossible with the unit banking systems of the United States. The lessened time required in clearing, together with the reduction in the size of the float, means a saving of substantial value to the depositors and business concerns of England.

Branch banking has simplified the problem of financing chain industries by enabling the parent office of the chain to make the necessary financial arrangements for the entire chain system with the head office of a bank with branches, head office instructing the various branches located in the communities served by the chain system. Incidentally the location of branches in various parts of a city and of the country affords great convenience for the depositor who might reside in the country or in the suburbs and carry on business in the city. The growth in the use of the motor car, which has served

to encourage residence in the suburban and rural districts, and also has increased the traffic problem of the city, has made the preceding fact more generally appreciated.

Branch banking tends to cut down the overhead costs of doing business, but the reduction takes place mainly through an increase in volume of business made possible by the judicious placement of branches. During the latter period of bank amaglamations in England, the banks retained practically all of the employees of the consolidating institutions and it was only after the business of the resultant bank increased materially, which increase was taken care of without additions to the staff, that a reduction in overhead appeared. The statement was made to the effect that practically three to five years would elapse before a new branch would be operated profitably.

The English banks do not have to demonstrate their strength and soundness by erecting massive and ostentatious buildings for their branches and many of the latter are housed in inexpensively constructed buildings and manned by a staff of perhaps only two employees. The customer is familiar with the reputation and standing of the Big Five. The savings because of these circumstances are tremendous compared with the construction expenses of the buildings occupied by even the small unit bank desirous of attracting and impressing the public by imposing structures. Yet the resources of the entire Midland bank

consisting of approximately 2,000 branches support the small branch doing business in some rural village.

Those opposed to branch banking in the United States frequently have made the statement that branch banking in practice concentrates wealth in the large cities at the expense of the rural districts. It does this, the critics state, by receiving deposits in the rural districts and lending the major part of the credit based on these deposits to industries and financial organizations located in the large city districts. The results of branch banking in England have not substantiated this criticism, in so far as England is concerned. On the contrary, it appears as if the rural districts receive more credit from the banks with branches than could possibly have been furnished by unit banks. Many rural districts exist which could not support the running expense of an independent unit institution but in which the large joint-stock banks have opened branches. In some cases these branches will be open for business for perhaps only two or three days a week, but they afford banking facilities for the community. A tendency also exists among the residents of the community to become depositors of a branch of a large bank because the depositors in the rural districts possess the knowledge that the assets of these tremendous institutions are behind the several branches. A banker made the following pithy statement to the writer in discussing the agricultural loans made by his bank.

He said, "It is probably true that we do not make all the agricultural loans that the private bankers would have made had they been in existence, but we make a great many agricultural loans that the private bankers couldn't make." This remark stresses the view that the managers of the branch banks probably scrutinize more carefully than would most unit bankers the requests for credit made by the would-be borrowers, while the latter part of the quotation takes cognizance of the comparative vast resources available to the borrower under the branch banking system.

In practice, a capable and energetic member of the staff of a joint-stock bank is made a manager of a rural branch, usually because he has displayed a complete knowledge of banking theory and practice, executive ability, rare discernment, good judgment, and those other qualities which would single him as an outstanding figure among the thousands of employees of the bank. Thus to start with, the manager of a branch is a trained banker. It should be remembered that any loan recommended by the branch manager would be passed upon by those in positions of higher authority, as has been explained in a previous chapter, and therefore the chances are that the merits of the application for the loan would be the deciding factors when the decision concerning the granting of the credit advance would be made.

Objectors to branch banking state that the professional branch bank managers will view the loan

application in a cold-blooded manner, and thus will not make a loan based primarily upon the character of the applicant for credit. It has been found in England that the branch managers are naturally desirous of increasing the business of the branch over which they hold jurisdiction, and consequently they study the complexion of the community served by the branch and endeavor to become familiar with its problems. It is well to keep in mind the rather strenuous competition existing between the branches of the five large banks located in the same district. In some cases the bank retains an advisory board made up of local business men whose duties are to suggest to the managers of the branch ways and means for increasing the business of the branch. In practice therefore it would be inaccurate to say that loans made by branch managers are made in a cold-blooded manner; rather the loans are scrutinized more carefully by professional bankers who look beyond the reputation of the prospective borrower before granting the extension of credit.

This method of granting credit is most advantageous to the borrower himself, because in the last analysis the unwise extension of credit works a great hardship on the borrower as well as the banker. For the last three years or more the western and southern rural districts of the United States have experienced the results of extending credit to borrowers when from the standpoint of their own welfare it would have

been more beneficial if the credit had not been extended. Manifestly the extension of credit to those who are producing commodities, of which there already exists an oversupply, for the purpose of increasing production, will simply mean an accentuation of their problem. At the same time the banker extending the credit is placing his institution in a precarious position. And this fact should always be kept in mind; if and when the bank is forced to suspend repayments to depositors because of the frozen condition of its loans or the entire or partial loss of its loans, the entire community including the borrowers will suffer from the severe effects which always follow such occurrences. It has been thought wise to stress this point because the criticism to the effect that branch banking starves the rural districts for the benefit of urban centers is a most popular attack against branch banking and therefore deserves attention.

Before leaving this particular question, it might be wise again to repeat that branch banking in England places at the disposal of borrowers rural or urban, larger amounts of credit than would be available under unit banking, because of the tremendous concentration of resources possible only in a system of branch banking, the distribution of this credit being made by trained bankers who realize the tragic results of the unwise extension of credit.

It is undoubtedly true that branch banking in England encourages the development of professional

bankers. The minor executives of the bank, including the many branch managers, are in most cases employees of many years' standing with the bank, who have displayed unusual aptitude not only in their work in the bank, but also in the prescribed course of study which bank employees must take if they desire advancement. The presence of a large group of trained bankers certainly tends to raise banking standards and benefits the whole country. The turnover among the employees of a large English bank is comparatively slight. This is partly due to the advancement open to the employees. They know for example that the future managers of the numerous branches will be chosen from among their ranks, and the possibility of this promotion is an incentive. Then again the banks themselves do not seriously proselyte the employees of competitive institutions, and the faithful employee in turn knows he has a position which he will keep throughout his working life and which, in addition, will afford him a substantial pension upon retirement from active work.

There is some criticism in England directed at the Big Five on the grounds that the concentration of resources in these institutions practically constitutes a money trust. It will be recalled that the five institutions are the chief source of credit supply to the bill broker lending on short-term paper. These loans are made on agreed days in the form of weekly fixtures and upon the basis of an agreed rate of interest

usually fixed at about one per cent under bank rate. In other words, the five banks have among themselves an understanding concerning the days for repayments of the loans. For example, in making the loans each one of the Big Five takes a certain day of the week and the loan made is then subject to call one week later. Barclays lends on Monday, subject to call on the following Monday; Lloyds lends on Tuesday, subject to call on the following Tuesday; the National Provincial lends on Wednesday; while both the Midland and the Westminster banks lend on Thursday. Money is usually cheaper on Friday because of the approaching week end, and hence the two latter institutions make Thursday their lending day.

The critics of this arrangement seem to think the banks have this tacit agreement in order to keep up interest rates by creating a continuing demand for funds, as the continual repayment of these loans naturally forces a steady demand for credit on the part of the bill brokers who are the chief borrowers. The banks defend their action on the grounds that this method of control exercises a stabilizing influence on the money market and prevents undue fluctuations in interest rates, thereby, in the long run, benefiting borrowers.

It should be stated that the aforementioned criticism has not reached wide proportions, and that many of the note brokers in conversation agreed with the viewpoint of the banks, namely that such an

arrangement stabilizes interest rates. Of course if the banks should attempt to utilize their position in a manner calculated to popularize the suspicion of the existence of a money trust in England, pressure likely would be put upon the Government to regulate the activities of the banks—and the English banker desires to avoid this. It must not be forgotten that the Government did intervene during 1918, when it appeared possible that the Big Five might be reduced in number, through amalgamations, to one or two institutions. The nature and result of the intervention on the part of the Government has been referred to previously. It is only necessary to restate here that the committee appointed by the Government to investigate the possible existence of a money trust in England decided that no money trust existed, and then recommended certain measures designed to prevent the future creation of a money trust. The nature of these measures also has been referred to in a previous chapter, and therefore needs no further mention here.

Branch banking appears to be a logical phase of development in the banking business. One cannot ignore the tremendous responsibilities laid upon the banking systems by the rapid developments occurring in business during this early part of the twentieth century and in addition the readjustment caused by war and post-war problems. Even conceding the problematical value of the sentimental relationship which, at least in print, often appears to exist between

the local unit banker and his constituency, one cannot but feel that present-day banking problems are such that administration of the banking machinery by trained and expert bankers is imperative.

Throughout the preceding pages, wherever possible, it has been the desire to point out lessons which American bankers might learn from English experience, and before concluding this monograph it was thought proper to discuss briefly the extent to which branch banking has developed in the United States together with the future possibilities inherent therein.

The fact that each of the forty-eight states has the legal right to establish a banking system has created as many banking systems as there are states, while in addition the national banking system spreads throughout the United States. The Federal Reserve System while national in scope includes within its membership only 9099 out of the some 28,000 banks (both national and state) in the United States, and of these member banks 7790 are national banks, the remaining 1309 are chartered by the respective states in which they are located.[1] The number of banking systems in operation in the United States undoubtedly presents a difficult problem to be solved before widespread branch banking can be introduced in this country. Moreover, the political organization here is such that those bankers, and they are legion, who for personal

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[1]Federal Reserve Bulletin, January, 1928, p. 10.

reasons are favorably inclined toward the unit banking system, can exert a tremendous political pressure on both state and national legislative bodies and thus seriously retard the introduction of the theory of branch banking in our national banking system.[1]

Branch banking, in one form or another, is legalized in 21 states. However in practice more than 50 per cent of the banks operating branches are located in the six states of California, New York, Michigan, Ohio, Massachusetts and Louisiana which have altogether 431 such banks operating a total of 2,035 branches.[2]

The Federal Reserve Board made a study of the spread of branch banking in the United States from 1865-1924 and the results reveal a growth of branch banking in this country at a remarkably rapid rate when the legal, political and personal obstacles are taken into consideration. In 1865 only one branch was in operation, in 1904, 148 branches were in operation, in 1914, 507 branches were open and by 1926 there were 2,777 branches operated by 789 banks in this country.[3] While this indicates the growing importance of branch banking in the United States, yet at the present time less than three per cent of the banks in this country practise branch banking and of these practising branch banking over

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[1]The legal status of branch banking in the United States can be found in table on page 135.

[2]Federal Reserve Bulletin, June, 1926, p. 402.

[3]The complete table appears on page 137.

one-half are one-branch systems (banks operating only one branch). Nevertheless the number of bank amalgamations and consolidations has been so great and the growth of branch banking in the United States has been so rapid during the period 1920-26 as to lead one to believe that the branch banking movement in this country is really under way.

The investigation in England disclosed the many advantages of modern branch banking as contrasted with unit banking practised in the United States. If in 1926, a comparatively prosperous year, the United States suffers approximately one thousand bank failures, what can be expected in a year of depression? Challengingly to the United States the brilliant fact stands out that, notwithstanding the seemingly insuperable war and post-war financial problems, the complex international political situation, the serious labor difficulties, the long-drawn-out economic depression, and the lack of an elastic currency, the banking system of England has not suffered any serious failures or insolvencies among its members during this post-war period.

The following four tables were constructed from lists contained in *The Bankers' Almanac and Year Book for 1925-6*, pages 313-369. London: Thomas Skinner & Co.

LLOYDS BANK, LTD.

APPENDIX A-1

LLOYDS BANK, LTD.[1]

- 1923 Cox & Co.
  - 1922 H. & S. King & Co.
    - 1834 Greenwood, Cox & Co.
      - 1806 Greenwood & Cox
        - 1800 Cox & Greenwood
          - 1790 Cox, Cox & Greenwood
            - 1761 Cox, Muir & Cox
              - 1729 Cox & Muir
                - 1722 Cox & Drummond
- 1921 Fox, Fowler & Co. (Wellington Somerset Bank)
  - 1889 Gill & Co., Tavistock
  - 1889 Gill, Morshead & Co. (Tavistock Bank)
  - 1885 Marshall & Harding (Barnstaple Bank)
- 1919 West Yorkshire Bank, Ltd.
  - 1911 Halifax Joint Stock Banking Co., Ltd.
    - 1910 Halifax & Huddersfield Union Banking Co., Ltd.
      - 1836 J. W. & C. Rawson & Co., Halifax
- 1918 Capital & Counties Bank, Ltd.
  - 1907 Eyton, Burton & Co. (Shrewsbury) (Salop Old Bank)
    - 1884 Burton, Lloyd & Co. or: Burton, Lloyd, Salt & How
    - 1884 Rocke, Eyton & Co.
      - 1884 Scott, Burton & Co. (Salop Bank)
  - 1906 Berwick, Lechmere & Co. (Old Bank, Worcester) (Worcester Old Bank)
  - 1906 Lechmere, Isaac, Martin & Co., Tewkesbury
  - 1905 Bacon, Cobbold & Co. (Ipswich Bank)
    - 1899 Bacon, Cobbold, Tollemache & Co., Ipswich
      - 1393 Cox, Cobbold & Co., Harwich
  - 1904 Fosters, Cambridge (Cambridge & Cambridgeshire Bank)
  - 1903 Hammond, Plumptre, Hilton, McMaster & Furley (Canterbury Bank)
    - 1898 Hammond, Plumptre, Furley, Hilton & McMaster
  - 1902 Cornish Bank, Ltd. (Tweedy, Williams & Co.)
    - 1891 Commercial Bank of Cornwall
  - 1901 Moore & Robinson's Nottinghamshire Banking Co., Ltd.
    - 1876 Arkwright & Co. of Wirksworth (Wirksworth Bank)
  - 1901 Lacons, Youell, & Kemp, Yarmouth, etc. (Yarmouth, Norfolk & Suffolk Bank)
    - 1893 Lacons, Youell & Co., Gt. Yarmouth
  - 1900 Oakes, Bevan, Tollemache & Co., Bury St. Edmunds, etc. (Bury & Suffolk Bank)
  - 1898 I. & I. C. Wright & Co., Nottingham
  - 1898 Glamorganshire Banking Co., Ltd.
  - 1896 C. St. Barbe & Daniell (Lymington Bank)
  - 1896 Henty & Co. (Worthing)
  - 1896 Wheeler, Thomas & Co., High Wycombe
  - 1895 Slocock, Matthews, Southby & Slocock (Newbury Bank)
  - 1894 Wells, Hogge & Lindsell (Baldock and Biggleswade Bank)
  - 1893 Mellersh & Co. (Godalming Bank)
  - 1891 Watts & Co., Teignmouth
  - 1891 Garfit, Claypon & Co. (Boston Bank)
  - 1890 Western Counties Bank, Ltd., Liskeard
    - 1886 Liskeard, Bodmin, Love, Wadebridge & Camelford
      - 1885 Clymo, Treffry, Hawke, West & Co., Liskeard
  - 1890 Northamptonshire Banking Co., Ltd.
  - 1886 Gloucestershire Banking Co.
    - 1883 Webb & Co., Ledbury
  - 1886 Jenner Knight & Sons (Farnham Bank)
  - 1883 Haydon & Smallpiece (Guilford Bank)
  - 1883 Locke, Tugwell & Merk (Devizes and Wiltshire Bank)
  - 1878 Willis, Percival & Co., London
    - 1814 Willis, Wood, Percival & Co.
      - 1792 Willis, Wood & Co.
        - 1787 Moorhouse, Willis & Reade
          - 1778 Reade, Moorhouse & Co.
            - 1774 Willis & Reade
              - 1755 Tysoe, Willis & Reade
                - 1752 Green & Tysoe
                  - 1733 Green & Eades
                    - 1718 Stephen Child, Thomas Greene and Mathias Eades
                      - 1713 Tudman and Child
  - 1878 Hampshire and North Wiltshire Banking Co.
    - 1877 Hampshire Banking Co.
      - 1864 Seymour & Co. (Basing Stoke & Odiham Bank)
      - 1861 Heath & Co. (Andover Bank)
      - 1854 Wickham & Co. (Winchester and Hampshire Bank)
      - 1840 Southern District Banking Co., Newport, I. W., Cowes & Ryde
      - 1834 Atkins & Sons, Portsmouth
      - 1834 English & Jersey Union Bank
    - 1877 North Wilt Banking Co.
      - 1866 Ward, Merriman & Co., Marlborough
      - 1860 Everett, Ravenhill & Co., Warminster
- 1914 Wilts & Dorset Banking Co., Ltd.
  - 1897 R. & R. Williams, Thornton, Sykes & Co., Dorchester, etc. (Dorchester Old Bank)
  - 1897 Pinckney Brothers, Salisbury (New Sarum Bank) (Salisbury Old Bank)
  - 1890 W. Hancock (Wiveliscombe Bank)
  - 1876 Sealy & Co. (Bridgewater Bank)
  - 1873 Wm. Footner & Son (Romsey and Hampshire Bank)
  - 1855 Storey and Thomas Bank, Shaftesbury
  - 1849 Tice and Welch, Plymouth, etc. (Christchurch Bank)
- 1912 Peacock, Willson & Co., Sleaford, etc. (Newark and Sleaford Bank)
  - 1861 Peacock, Handley & Co.
    - 1858 Handley, Peacock, Handley & Peacock
      - 1841 Handley, Peacock & Handley
        - 1827 Peacock, Handley & Kirton (Sleaford)
- 1911 Hill & Sons, West Smithfield
- 1909 David Jones & Co. (Llandovery & Llandilo Bank)
- 1908 Lambton & Co., Newcastle-on-Tyne
  - 1836 (?) Davison-Bland & Co. (Bank in Newcastle)
- 1906 Devon & Cornwall Banking Co., Ltd.
  - 1890 Three Towns Banking Co., Ltd
- 1905 Hedges, Wells & Co. (Wallingford Bank)
- 1903 Grant & Maddison's Union Banking Co., Ltd. (Southampton and Portsmouth)
  - 1888 Grant, Gillman & Long, Portsmouth
  - 1888 Madison, Atherley, Hankinson and Darwin, Southampton (Southampton Town and County Bank)
- 1903 Hodgkin, Barnett, Pease, Spence & Co. (Newcastle-upon-Tyne, etc.)
- 1902 Pomfret, Burra & Co. (Ashford Bank)
- 1902 Bucks & Oxon Union Bank, Ltd.
  - 1904 (?) Bartlett & Co., Buckingham
  - 1902 Cobb, Bartlett & Co. (Aylesbury Old Bank)
    - ? Rickford & Son, Aylesbury
  - 1902 T. R. Cobb & Sons (Banbury Old Bank)
- 1900 Williams, Brown & Co. (William) (Leeds Union Bank) (William, Milliams, Brown & Co.)
- 1900 Brown, William Williams & Co.
- 1900 Torquay Bank
- 1900 Brown, Janson & Co.
- 1900 Brooks & Co.
- 1900 Cantiffe, Brooks & Co., Manchester, etc.
- 1900 Liverpool Union Bank, Ltd.
- 1900 Vivian, Kitson & Co., Torquay
- 1899 Burton Union Bank, Ltd.
  - 1893 Burton, Uttoxeter & Ashbourn Union Bank, Ltd.
- 1899 Stephens, Blandy, Barnett, Butler & Co. (Reading Bank)
  - 1892 Stephens, Blandy & Co., Reading
- 1898 Sandgate and Shorncliffe Bank
- 1898 Jenner & Co., Sandgate
- 1897 County of Gloucester Bank, Ltd.
  - 1856 Cheltenham & Gloucestershire Banking Co.
- 1897 Williams & Co., Chester
- 1895 Paget & Co. (Leicester Bank)
- 1894 Bromage & Co. (Monmouth Old Bank)
- 1893 Curteis, Pomfret & Co. (Rye Bank)
- 1893 Herries, Farquhar & Co.
  - 1799 Sir Robert Herries & Co.
    - 1774 Herries (Robert) & Co.
- 1892 Bristol & West of England Bank, Ltd.
- 1892 Richard Twining Co. or: Twining, Richard & Co.
- 1891 Hart, Fellows & Co., Nottingham
- 1891 Praeds & Co.
- 1891 Cobb & Co. (Margate Bank)
- 1890 Beeching, Hodgkin & Beeching, Tunbridge Wells (Old Bank, Tonbridge)
- 1890 Beechings & Co., Tunbridge Wells, Hastings, etc.
- 1890 Wilkins & Co., Brecon, Cardiffe (Brecon Old Bank) (Old Bank, Brecon, Cardiffe, etc.)
- 1889 Birmingham Joint Stock Bank, Ltd.
- 1889 Worcester City and County Banking Co., Ltd.
  - 1884 Ludlow & Tenbury Bank
  - 1877 Parsons & Co. (Radnorshire Bank)
- 1889 Lloyds, Barnett's & Bosanquets Bank, Ltd.
  - 1888 Pritchard, Gordon & Co. (Broseley and Bridgnorth Bank)
  - 1884 Hoares, Hanburys & Lloyds
  - 1884 Barnetts, Hoares, Hanbury and Lloyd
    - 1864 Hanbury & Lloyd
      - 1858 Hanbury, Taylor & Lloyd
        - 1815 Taylor, Lloyd, Hanbury & Bowman
          - 1791 Taylor, Lloyd & Bowman
            - 1784 Hanbury & Co.
    - 1864 Barnette, Hoare & Co.
      - 1826 Hoare, Barnett, Hoare & Co.
        - 1808 Hoare, Hill & Barnett
          - 1800 Bland, Barnett & Hoare
            - 1772-3 Bland & Barnett
              - 1766 Bland, Barnett & Bland
  - 1884 Bosanquet, Salt & Co.
    - 1867 Bosanquet, Beachcroft & Co.
    - 1867 Stevenson, Salt & Co.
    - 1796 Bosanquet & Co.
  - 1884 Lloyds Banking Co., Ltd.
    - 1880 Beck & Co., Shrewsbury (Shrewsbury Bank) (Shrewsbury and Welshpool Old Bank)
    - 1879 Coventry & Warwickshire Banking Co.
    - 1874 Shropshire Banking Co.
    - 1872 R. & W. F. Fryer (Wolverhampton Old Bank)
    - 1868 Rugby Bank (Butlin & Sons)
    - 1868 A. Butlin & Son (Rugby)
    - 1866 Stevenson Salt & Co. (Stafford Old Bank)
    - 1866 Warwick & Leamington Banking Co.
    - 1865 P. & H. Williams (Wednesbury Old Bank)
    - 1865 Moilliet & Sons, Birmingham
    - 1865 Lloyds & Co. (Birmingham Old Bank)

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[1] An effort has been made, in the construction of these diagrams, to indicate the exact nature of the change, whether consolidation, absorption, or mere change of name, by the particular bracket used. The following section from the Midland Bank chart will illustrate the three categories involved:

Metropolitan & Birmingham Bank, Limited
- 1889 Royal Exchange Bank, Ltd
- 1879 Metropolitan Bank, Ltd.
- 1889 Birmingham Banking Co., Ltd.
  - 1889 Stratfordshire Joint Stock Bank, Ltd.
  - 1880 Stourbridge & Kidderminster Banking Co.

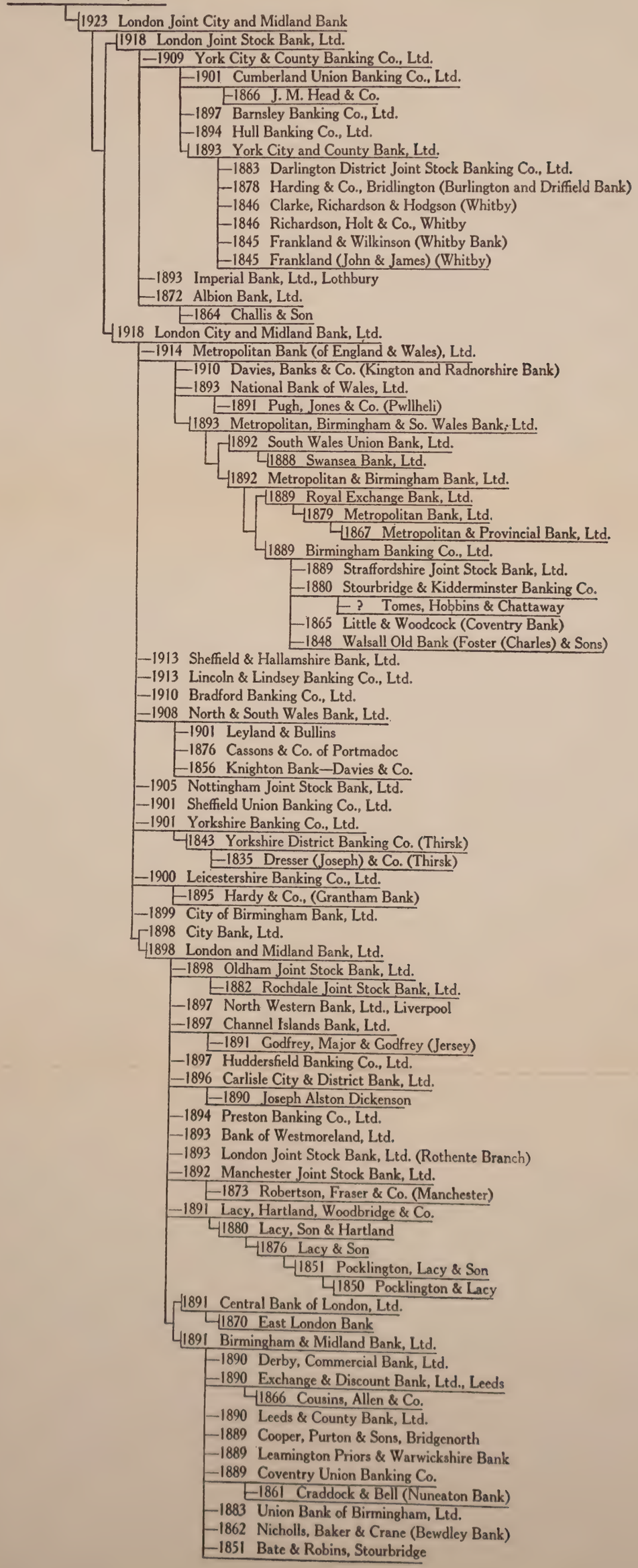
The one bracket (⊏) indicates that in 1889 the Royal Exchange Bank, Ltd. and the Birmingham Banking Co., Ltd., two separate institutions, consolidated to form a new bank, the Metropolitan & Birmingham Bank, Limited.

The next form of bracket (⊏) indicates that in 1879 the Metropolitan Bank, Ltd. changed its name to Royal Exchange Bank, Ltd. It is essentially the same institution, with the name changed.

The last form of bracket (⊏) indicates that in 1880 the Stourbridge & Kidderminster Banking Co., a separate concern, was absorbed by the Birmingham Banking Co., Ltd. Prior to this change, there were two institutions; afterwards, only one. The same is true of the absorption of the Stratfordshire Joint Stock Bank, Ltd. by the Birmingham Banking Co., Ltd. in 1889.

MIDLAND BANK, LTD.

APPENDIX A-2



NATIONAL PROVINCIAL BANK, LTD.

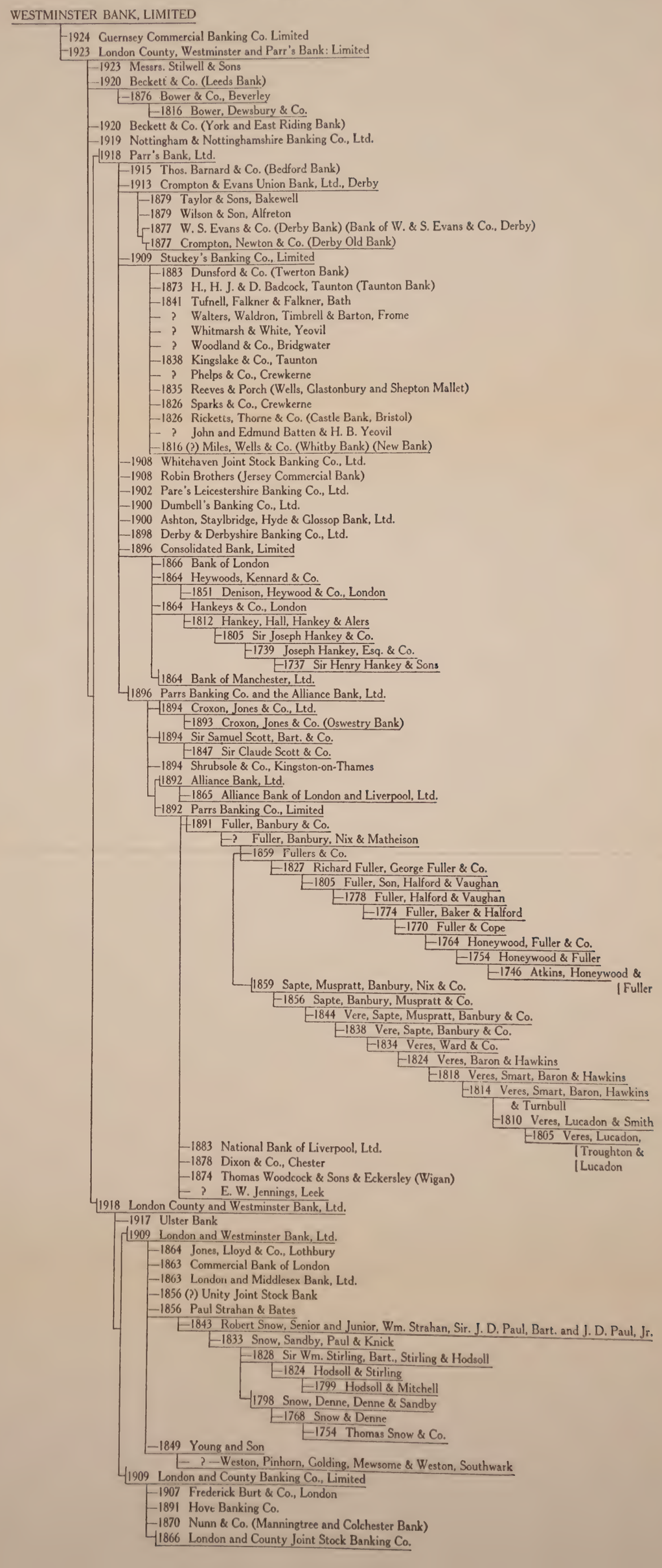
APPENDIX A-3

NATONAL PROVINCIAL BANK, LIMITED

- 1924 Guernsey Banking Co., Ltd.
- 1924 Grindlay and Company
- 1924 National Provincial & Union Bank of England, Ltd.
  - 1922 Dingley, Pearse & Co., Okehampton
  - 1922 Dingley & Co., Launceston
  - 1920 Shilson, Coode & Co. (St. Austell Bank)
    - 1899 Coode, Shilson & Co., St. Austell
  - 1920 Northamptonshire Union Bank, Ltd.
    - 1887 Whitworth, Wallis & Hewett, Towcester
    - 1887 Wallis & Hewett, Towcester
    - 1887 Hewitt & Moxon, Towcester
    - 1887 Moxon & Percival (Towcester Old Bank)
  - 1920 Coutts & Co.
    - 1914 Robarts, Lubbock & Co.
      - 1860 Robarts, Curtis & Co.
        - 1860 Lubbock, Foster & Co.
        - 1834 Sir Wm. Curtis, Robarts & Curtis
          - 1818 Robarts, Curtis, Robarts & Curtis
            - 1805 Robarts, Curtis, Were, Horngold & Berwick
      - 1860 Sir John Wm. Lubbock, Forster & Co.
        - 1835 Sir John Lubbock, Lubbock, Forster & Co.
          - 1814 Forster, Lubbock, Forster & Clark
            - 1801 Forster, Lubbock, Bosanquet & Co.
              - 1785 Furley, Lubbock, Bosanquet & Co.
                - 1785 Lemon, Furley, Lubbock & Co.
                  - 1776 Sir Wm. Lemon, Buller, Furley, Lubbock & Co.
    - 1840 Hammersley & Co.
      - 1840 Hammersley, Greenwood & Brooksbank
        - 1823 Hammersley, Greenwood, Drewe & Brooksbank, Pall Mall
          - 1806 Hammersley, Montolieu, Brooksbank, Greenwood & Drewe
            - 1796 Ransom, Morland & Hammersley
    - 1822 Coutts & Coutts
      - 1816 Davison and Co.
        - 1816 Davison, Noel, Templer, Middleton and Wedgwood
          - 1807 Davison, Noel, Templer, Middleton, Johnson and Wedgwood
            - 1805 Edwards, Templer, Middleton, Johnson and Wedgwood
              - 1795 Edwards, Smith, Templer, Middleton, Johnson and Wedgwood
      - 1761 Campbell & Coutts
        - 1755 Middleton & Campbell
  - 1920 Richards & Co., Llangollen
  - 1919 (?) Bradford District Bank, Ltd.
    - 1904 Bradford Commercial Joint Stock Banking Co., Limited
  - 1919 Sheffield Banking Co., Ltd.
  - 1918 William and John Biggerstaffe, Smithfield, etc.
  - 1918 National Provincial Bank of England, Ltd.
    - 1903 Knaresborough & Claro Banking Co., Ltd.
    - 1899 County of Stafford Bank, Ltd.
    - 1878 Bank of Leeds
    - 1868 Bailey & Co. (Monmouthshire Agricultural and Commercial Bank)
    - 1867 (?) David Morris and Sons (Carmarthen Bank)
    - 1867 Crawshay, Bailey & Co. (Abergavenny)
    - 1858 Wm. Moore Bank, Hove
    - 1854 Kinnersley & Sons (Newcastle-under-Lyme)
    - 1846 Stockton & Durham County Joint Stock Bank, Stockton and Guisborough
    - 1843 Isle of Wight Joint Stock Bank (Newport)
    - 1843 Pretor & Co. (Sherborne)
    - 1843 Loveband & Co. (Torrington)
    - 1843 Ley & Co. (Bideford Old Bank)
    - 1842 Cole, Holroyd & Co. (Exeter)
    - 1841 Dover Bank
    - 1840 Fryer, Andrews & Co. (Dorsetshire)
    - 1836 Skinner & Co. (Stockton & Darlington)
    - 1836 Skinner, Atty & Holt (Commercial Bank, Stockton)
    - 1835 North Devon Bank
  - 1918 Union of London & Smiths Bank, Ltd.
    - 1903 London & Yorkshire Bank, Ltd.
    - 1903 Wigan, Mercer, Tasker & Co., Maidstone
    - 1903 Prescotts Bank, Ltd., Cornhill, E. C.
      - 1903 Prescott, Dimsdale, Cave, Tugwell & Co., Ltd.
        - 1902 Hilton, Rigden & Rigden (Faversham Bank)
        - 1902 Sanders, Snow & Co.
          - 1901 Milford, Snow & Co. (City Bank of Exeter)
          - 1901 Sanders & Co. (Exeter Bank, Exeter)
        - 1900 Thomas Butcher & Sons (Tring Bank and Chesham Bank)
        - 1898 Charles Hopkinson & Sons
        - 1892 Bulpett & Hall, Winchester (Winchester, Alresford and Alton Bank)
        - 1891 Harwood & Co. (Thornbury Bank)
        - 1891 Deane & Co., Winchester
        - 1891 Moger & Sons, Bath
        - 1891 Tugwell, Brymer & Co., Bath
        - 1891 Miles, Cave, Baillie & Co., Bristol
          - 1877 Cave, Baillie & Co.
            - 1878 (?) Bristol Bank (Miles, Miles & Co.)
        - 1891 Dimsdale, Fowler, Barnard & Dimsdales
          - ? —Dimsdale, Drewett, Fowler & Barnard (?)
            - 1852 Dimsdale, Drewett, Fowler & Co.
              - 1852 Barnard & Co.
                - 1852 Barnard, Dimsdale & Dimsdale
                  - 1814 Baron, Dimsdale Sons, Barnard & Staples
              - 1852 Drewett & Fowler
                - 1823 Holt (William) & Co.
                  - 1819 Smith & Holt
                    - 1818 Smith (Joseph) & Co.
                      - 1799 Drewett (Messrs.)
        - 1891 Prescott, Cave, Buxton, Loder & Co.
          - 1875 Prescott, Cave, Foster, Buxton, Loder & Co.
            - 1874 Prescott, Grote, Cave & Cave
              - 1848 Prescott, Grote, Ames, Baillie & Grote
                - 1838 Grote, Prescott & Grote
                  - 1820 Prescott, Grote & Prescott
                    - 1801 Prescott, Grote & Hollingsworth
                      - 1799 Prescott, Grote & Co.
      - 1902 Samuel Smith Brothers & Co. (Hull and Kingston-upon-Hull
      - 1902 Samuel Smith & Co., Derby (Derby Bank)
      - 1902 Samuel Smith & Co., Newark (Newark Bank)
        - 1880 Godfrey & Riddell, Newark-on-Trent
      - 1902 Samuel Smith & Co., Nottingham (Nottingham Bank)
        - 1871 Robinson & Co.
      - 1902 Smith, Payne & Smiths, London
      - 1902 Smith, Ellison & Co. (Lincoln Bank)
      - 1902 Union Bank of London
        - 1900 London, Commercial & Cripplegate Bank, Ltd.
          - 1900 Cripplegate Bank, Ltd.
        - 1891 Chasemore, Robinson & Sons, Croydon
        - 1859 Dixon, Brooks & Dixon
          - 1836 Dixon, Son & Brooks
            - 1831 Dixon, Langdale, Dixon & Brooks
              - 1825 Brooks & Dixon
                - 1819 Brooks, Son & Dixon
                  - 1814 Dawson, Brooks, Son & Dixon
                    - 1802 Dixon, Brooks & Co.

WESTMINSTER BANK, LTD.

APPENDIX A-4



B. *Some Statistics Showing Extent of Branch Banking in the United States*

STATES CLASSIFIED WITH REFERENCE TO BRANCH BANKING PROVISIONS IN STATE LAWS AS OF DECEMBER 31, 1925[1]

STATES WHICH PERMIT ESTABLISHMENT OF BRANCHES (21):	STATES WHICH PROHIBIT ESTABLISHMENT OF BRANCHES (17):	STATES WHICH DO NOT EXPRESSLY PROVIDE FOR ESTABLISHMENT OF BRANCHES (10):
Arizona	Alabama	Iowa
California	Arkansas	Kansas
Delaware	Colorado	Kentucky
Georgia	Connecticut	Montana
Louisiana	Florida	Nebraska
Maine	Idaho	New Hampshire
Maryland	Illinois	North Dakota
Massachusetts	Indiana	Oklahoma
Michigan	Minnesota	South Dakota
Mississippi	Missouri	Vermont
New Jersey[2]	Nevada	
New York	New Mexico	
North Carolina	Oregon	
Ohio	Texas	
Pennsylvania	Utah	
Rhode Island	Washington	
South Carolina[3]	Wisconsin	
Tennessee		
Virginia		
West Virgniia[4]		
Wyoming[3 4]		

[1]Federal Reserve Bulletin, June, 1926, p. 402.
[2]Conditional upon legislation by Congress.
[3]Branches authorized by implication.
[4]No branch offices in operation.

BANKS OPERATING AND NOT OPERATING BRANCHES, BY STATES, DECEMBER, 1926[1]

	NUMBER OF BANKS		
	TOTAL	OPERATING BRANCHES	NOT OPERATING BRANCHES
United States	27,423	789	26,634
Alabama	357	5	352
Arizona	47	7	40
Arkansas	465	2	463
California	626	88	538
Delaware	48	5	43
District of Columbia	43	10	33
Georgia	59	22	537
Indiana	1,084	4	1,080
Kentucky[2]	610	4	606
Louisiana	234	40	194
Maine	145	24	121
Maryland	244	36	208
Massachusetts	445	78	367
Michigan	739	68	671
Minnesota	1,238	2	1,236
Mississippi	326	11	315
Nebraska	1,043	2	1,041
New Jersey	562	13	549
New York	1,156	105	1,051
North Carolina	489	40	449
Ohio[2]	1,084	52	1,032
Oregon	265	1	264
Pennsylvania	1,668	83	1,585
Rhode Island	37	9	28
South Carolina	301	7	294
Tennessee	530	22	508
Virginia	509	37	472
Washington	362	5	357
Wisconsin	980	7	973

[1]Federal Reserve Bulletin, May, 1927, p 317.
[2]Figures for June, 1926.
This table does not include states expressly prohibiting branch banking, Colorado, Connecticut, Idaho, Illinois, Missouri, Nevada, New Mexico, Texas and Utah, and states in which no branches are in operation—Iowa, Kansas, Montana, N. Dakota, Oklahoma, S. Dakota, Vermont, West Virginia.

NUMBER OF BANKS OPERATING BRANCHES AND NUMBER OF BRANCHES BY STATES[1]

STATE (States arranged in order, according to number of banks reporting branches in December, 1926)	BANKS OPERATING BRANCHES December, 1926	NUMBER OF BRANCHES December, 1926
Total	789	2,777
New York	105	507
California	88	668
Pennsylvania	83	127
Massachusetts	78	132
Michigan	68	397
Ohio	52	227
Louisiana	40	104
North Carolina	40	74
Virginia	37	59
Maryland	36	114
Maine	24	53
Georgia	22	38
Tennessee	22	56
New Jersey	13	20
Mississippi	11	25
District of Columbia	10	20
Rhode Island	9	27
Arizona	7	22
South Carolina	7	25
Wisconsin	7	9
Alabama	5	19
Delaware	5	15
Washington	5	7
Indiana	4	8
Kentucky	4	12
Arkansas	2	3
Minnesota	2	6
Nebraska	2	2
Oregon	1	1
Florida	—	—
New Hampshire	—	—

[1]Federal Reserve Bulletin, May, 1927, p. 386.

TABLE SHOWING THE DISTRIBUTION OF BRANCH BANKING IN THE UNITED STATES[1]

Number of banks:	DECEMBER 31, 1926
Operating branches	789
Only in home city	473
In and outside home city	48
Only outside home city	268
Number of branches operated:	
Total	2,777
In home city	1,928
Outside home city	849
Distribution of branch systems by size:	
More than 10 branches	50
6 to 10 branches	38
3 to 5 branches	124
2 branches	131
1 branch	446

[1]Federal Reserve Bulletin, May, 1927, p. 316.

NUMBER OF BRANCHES OF BANKS IN OPERATION, BY YEARS[1] (UNITED STATES)

YEAR	TOTAL
1926	2,777
1925	2,645
1924	2,095
1923	1,882
1922	1,602
1921	1,211
1920	1,052
1919	857
1918	754
1917	696
1916	626
1915	565
1914	507
1913	462
1912	416
1911	360
1910	329
1909	305
1908	275
1907	250
1906	221
1904	148
1903	120
1902	95
1901	71
1900	60
1895-99	48
1890-94	24
1885-89	8
1880-84	4
1875-79	3
1870-74	3
1865-69	1

[1]Federal Reserve Bulletins, December, 1924, p. 935; May, 1927, p. 316.

DATE DUE

Demco, Inc. 38-293